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|---|---|---|
| Austria ... Sch 15 | Indonesia ... Rp 2500 | Portugal ... Esc 65 |
| Bahrain ... Din 0.650 | Italy ... L 1100 | S. Arabia ... Rs 6.00 |
| Belgium ... BFr 35 | Japan ... Y650 | Singapore ... S$ 4.10 |
| Canada ... C$1.00 | Jordan ... Fils 500 | Spain ... Pts 95 |
| Cyprus ... Mils 600 | Kuwait ... Fils 500 | Sri Lanka ... Rup 30 |
| Denmark ... DKr 7.00 | Lebanon ... L£ 6.00 | Sweden ... SKr 6.50 |
| Egypt ... E£1.00 | Luxembourg ... LFr 35 | Switzerland ... SwFr 2 |
| Finland ... Fmk 5.50 | Malaysia ... Ms 4.25 | Taiwan ... NT$ 65 |
| France ... Fr 5.50 | Mexico ... Pes 300 | Tunisia ... Din 0.650 |
| Germany ... DM 2.00 | Morocco ... Dh 6.00 | Turkey ... L 150 |
| Greece ... Dr 60 | Netherlands ... Fl 2.25 | U.A.E. ... Dh 6.50 |
| Hong Kong ... HK$ 12 | Norway ... Nkr 6.00 | U.S.A. ... $1.50 |
| India ... Rup 15 | Philippines ... Pes 20 | |

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,182 — Monday November 28 1983 — D 8523 B


**France signals an armistice with IBM, Page 17**

## NEWS SUMMARY

### GENERAL

## Madrid Boeing crash kills 183

**Deaths in the Colombian Boeing 747 crash outside Madrid, where it was approaching for an unscheduled landing, reached 183 last night. Eleven surviving passengers were being treated in hospital.**

The jet was flying from Paris to Bogota for the Avianca airline. It was diverted to Madrid because an Avianca Frankfurt-Bogota flight had been cancelled, and it was to pick up another 146 passengers in Madrid.

Most of the dead passengers were French, German and South American. All the 24 crew were killed. There were reports that an engine was on fire before the crash.

### Walesa can go

Polish Foreign Minister Stefan Olszowski said in Jakarta that Solidarity leader Lech Walesa could go to Oslo himself to collect his Nobel Peace Prize on December 10.

### Manila protest

Many thousands of demonstrators against the Marcos Government took to the streets in Manila, banging railings, lamp posts and traffic signs.

Seven men were reported missing after an oil tanker explosion off the Philippine island Luzon.

### Francoist rally

Tens of thousands of right-wingers marched through Madrid on the eighth anniversary of General Franco's death.

### £25m gold robbery

Gold worth about £25m ($36.5m), bound for the Far East, was stolen on Saturday by an armed gang from a security warehouse near Heathrow Airport, London, in Britain's biggest robbery.

### Tidey kidnap charge

William Kelly, 40, was remanded in custody in a Sunday evening court hearing at Tralee, Co Kerry, in the Irish Republic on charges connected with the kidnapping of Weston Stores chief executive in Ireland Don Tidey, who has not been found.

### McGlinchey claim

The most wanted man in Ireland, Republican guerrilla leader Dominic McGlinchey said in an interview with the Dublin Sunday Tribune that he had killed 30 people in the past 10 years.

### New W. German party

Right-wing West German MPs Franz Handlos and Ekkehard Voigt, who left the Bavarian Christian Social Union earlier this year, formed a new party, the Republicans, at a Munich rally with 600 supporters.

### Kyprianou accused

Greek Premier Dr Andreas Papandreou accused Cypriot President Spyros Kyprianou of breaking agreed policy by backing the UK proposal for talks between Britain, Greece and Turkey on the Cyprus issue. Page 2

### Briefly . . .

Sir Anton Dolin, dancer and London Festival Ballet founder died aged 79. Obituary, Page 15

### Publisher's notice

We apologise to readers for the non-appearance of the Financial Times on Saturday. This was the result of industrial action in London by members of the National Graphical Association. In consequence, London Stock Exchange prices and Unit Trusts prices for Friday were not available for today's edition. A summary of Friday's UK company news, together with some statistical material normally published on Saturday, appears on Page 22. The crossword appears today on Page 15.

### BUSINESS

## Western deficit on East bloc trade

● **WESTERN** countries had a trade deficit with Eastern Europe in 1982 for the first time since the 1960s, and it is widening this year, according to the UN's Economic Bulletin for Europe. Causes include credit restrictions and debt repayments for the Eastern bloc. Page 4

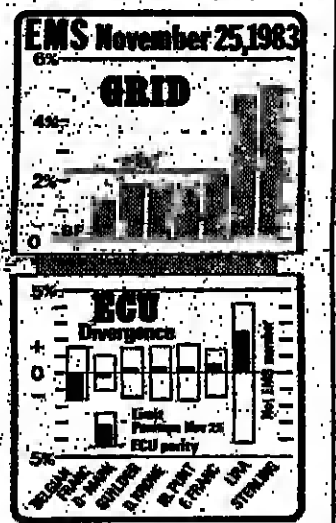
● **PHILIPPINES** is seeking about $3.3bn in new loans before the end of 1984. Page 3

● **EGYPT** has received four bids for building the first nuclear power plant in the Middle East at a cost of $4bn-plus. Page 4

● **SPANISH-WEST GERMAN** consortium has provisionally won a contract for building a rapid-transit rail system in Colombia, although its $627m bid was not the lowest. Page 4

● **EUROPEAN** Monetary System trading was again dominated by the strength of the dollar, which reached record levels against the French franc and the lira, and a 14-week high against the D-Mark.

The Belgian franc failed to benefit from the dollar's pressure on the D-Mark, and remained the weakest currency, outside its divergence limit. Belgium's domestic interest rates were firmer, and its central




bank supplemented its support for the franc by intervention in the foreign exchange market with an increase from 9 per cent to 10 in its discount rate.

*The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.*

● **BRITAIN's** National Coal Board gave the go-ahead for a £400m ($584m) coalfield at Asfordby, Leicestershire, part of the huge Belvoir coalfield. The board is to spend £500,000 on designing a pilot plant to extract oil from coal. Page 9

● **SUEZ CANAL**: Egypt decided to increase tolls by 1 per cent for larger ships and 5 per cent for smaller ships, from January 1.

● **UK GOVERNMENT** plans to raise at least £262m ($382.5m) by selling another tranche of its holding in world communications group Cable and Wireless. Page 9

● **LONDON** futures exchanges will this week appoint the chief executive of a committee to protect investors. Page 9

● **IBM**, world's largest computer maker, filed a $7.5m suit against National Semiconductor, alleging that it co-operated with the Japanese to steal its trade secrets. Page 2

● **BRITISH AEROSPACE** is conducting a worldwide survey to see if it should proceed with developing an advanced version of its best-selling BAe-748 twin-engine turbo-prop airliner. Page 6

● **WARDLEY CYPRUS**, a subsidiary of Hongkong and Shanghai Banking, has been granted a licence for offshore banking in Cyprus.

# Saudis charter 11 tankers to store crude outside Gulf

BY RICHARD JOHNS IN LONDON

**Saudi Arabia has chartered 11 supertankers to increase oil storage capacity outside the Gulf because of its acute apprehensions about supplies being interrupted as a result of the Iran-Iraq war.**

Norbec, a company set up earlier this year by the Saudi state oil corporation, Petromin, to market the country's oil, has chartered 11 very large crude carriers (VLCCs) with a 30 to 180 days' option to use them for storage.

Tanker brokers said that the 11 vessels have the capacity to hold a total of 15m to 16m barrels. The plan, it is believed, would be to moor them fully loaded in the Arabian Sea off the coast of Fujairah, a member of the United Arab Emirates, and Oman.

The Saudi Government is understood to take extremely seriously Iraqi warnings, backed by the threat of Exocet missiles, to attack tankers in the vicinity of Kharg Island, the main Iranian oil terminal, and shipping visiting the port of Bandar Khomeini. It is also aware of the danger of Iranian retaliation against the movement of Arab-produced oil.

A week ago, Iraqi forces sank a Greek-owned merchant vessel, the Antigoni, in the approaches to Bandar Khomeini with one of the deadly French-supplied missiles. Last week Iraq repeated its warnings.

The Iranians, on their side, have threatened to block the Straits of Hormuz, the entrance to the Gulf, to tankers.

The expectation is that the VLCCs will be loaded within the next fortnight. They would substantially increase Saudi storage capacity outside the Gulf.

Storage tanks with a capacity of 11m barrels, at Yanbu on Saudi Arabia's Red Sea coast at the western end of the trans-peninsula pipeline, are already full.

Norbec's office in London acknowledges that the company has been active in the market but declines to comment on the reasons for the charters or the tonnage involved. Brokers confirmed, however, the chartering of 11 VLCCs.

### SHIPPING RATES UNSHAKEN

Shipping markets took in their stride the sinking of a Greek bulk tanker near an Iranian port by an Iraqi-fired Exocet missile. There was no evidence of disruption to crude shipments out of Kharg Island and chartering rates showed little change over the week. *Shipping report, Page 4*

# Reagan in key talks with Shamir and Gemayel

BY PATRICK COCKBURN IN TRIPOLI AND DAVID LENNON IN TEL AVIV

PRESIDENT Amin Gemayel has left Beirut for Rome on his way to the U.S. for crucial talks with President Ronald Reagan on the future of Lebanon's May 17 agreement with Israel — covering normalisation of relations and joint patrols of their forces in Southern Lebanon.

The agreement is currently frozen and Mr Chafic Al-Wazzan, the Lebanese Prime Minister, has warned that it will be cancelled unless Israel withdraws to its own borders.

However, President Gemayel is pledged to discuss the issue of Israeli withdrawal with all parties before reconvening the reconciliation conference of Lebanese political leaders.

The Lebanese leader's talks with President Reagan, scheduled for Thursday, will follow yesterday's arrival in Washington of Mr Yitzhak Shamir, Israel's Prime Minister, and Professor Moshe Arens, the Defence Minister, for talks today which they hope will result in increased economic aid and closer strategic co-operation.

The mood of optimism surrounding Mr Shamir's first trip to Washington since becoming premier is based on recent improvement in relations between the two countries, which share a common concern about the intentions of Syria.

President Reagan is certain to raise again his proposal for resolving the Palestinian problem by granting autonomy to the Palestinians of the West Bank and Gaza in association with Jordan. This was rejected by the Israelis when first proposed in September last year, and there is no indication that their mood has changed.

Instead the Israeli leader is hoping to find a sympathetic ear to his requests for new military equipment, increased strategic co-operation and additional economic assistance.

Israel would like to see joint military exercises with U.S. forces, including joint naval manoeuvres, and will offer port facilities for the Sixth Fleet and storage for U.S. military supplies.

The present economic crisis in Israel will prompt Mr Shamir to press Washington for improved terms for the assistance already being given to Israel. One demand likely to be made is the conversion of all of the $1.7bn in military aid approved for 1984 into a grant. At present half of this sum is a grant and the rest a loan.

Meanwhile, in Northern Lebanon, difficulties have arisen in the implementation of the Syrian-Saudi agreement on the withdrawal of Palestinian forces, loyal to Mr Yassir Arafat, the Palestine Liberation Organisation chairman, and his opponents. The rebel forces do not want to pull out of the refugee camps of Beddawi and Nahr Al-Bared which they have captured over the last three weeks.

The near-exclusion of the rebels from ceasefire discussions conducted by Mr Abdul Halim Khaddam, the Syrian Foreign Minister, over the last week has emphasised the dependence of the rebels on Damascus.

Mr Arafat and his men are to withdraw from Tripoli over the next week but they do not appear ready to evacuate immediately. There was a further outbreak of shelling yesterday emphasising the fragility of the ceasefire.

The siege of Tripoli has done little to add to the political credibility of the PLO rebels and their position has been further undermined by demonstrations in favour of Mr Arafat in Palestinian refugee camps under their control in Lebanon and in Syria.

# Renault in deal to help design and produce new Soviet car

BY DAVID HOUSEGO IN PARIS

RENAULT, the French state-owned motor group, has signed a protocol agreement with the Soviet Union for the development and manufacture of a new passenger car. It is expected to result in about FFr 1bn ($121.5m) worth of equipment orders for French industry.

The new car, to be built at the Moscow plant which currently produces the Moskvitch car, will be a middle range model with front wheel drive. Production is due to start in 1986, building up to some 200,000 units a year by 1988/89. Soviet car output is about 1.2m vehicles a year.

Renault is to help improve the prototype version and then, at Soviet expense, carry out tests on roadholding, bodywork, aerodynamics and weight reduction.

The French group is to also assist in putting the car into production. It is to supply technical and engineering studies for tooling equipment, a pressing shop, an assembly line and a paint shop. With the protocol agreement, Renault signed a FFr 300m contract for the engineering and technical studies.

The Soviets have been working on plans for a new, medium range passenger car for about five years. Renault is thought to have won its place in the venture against competition from Citroen – part of the privately owned Peugeot group – and Fiat of Italy. Fiat has long been involved in the Soviet vehicle industry.

Renault has a 20-year history of partnership with Moskvitch that has earned it contracts worth FFr 8.7bn since 1966. These have been for the supply of equipment to produce Soviet-made trucks, cars and tractors.

It is the first time Renault has helped in the development of a new model.

Renault said yesterday the agreement should yield about FFr 1bn of contracts for French industry. The car group will have a leading role in placing equipment orders.

Though the deal has been under negotiation for some time the signing in Moscow follows French protests last week by Mme Edith Cresson, the Minister for External Commerce, at the sharp decline this year in Soviet orders for French plant and equipment.

At a meeting of the Franco-Soviet economic commission in Moscow Mme Cresson spoke out strongly of French fears of a structural trade imbalance between the two countries in the coming years because of sharply increasing deliveries of Soviet gas to France.

Equipment orders placed with France fell in the first nine months of this year to FFr 950m from FFr 5.3bn in 1982. The French trade deficit with the Soviet Union, however, is expected to halve this year to about FFr 4bn from FFr 8.5bn in 1982.

Seat wins case against Fiat, Page 4

## Printing dispute test for British labour law

By John Lloyd in London

THE FIRST major test of strength between the British Government and the country's labour unions since the Conservatives came to power in 1979 emerged at the weekend, out of a dispute between the leading print union and a small newspaper group in north-west England.

No national newspapers were published in England on Saturday or Sunday, as a result of industrial action by the National Graphic Association (NGA) after a High Court judge on Friday levied an additional £100,000 fine on the union and ordered its assets to be seized because the NGA refused to halt picketing at the Stockport-based Messenger Newspaper Group where it is engaged in a dispute over the closed shop.

Some national newspapers were expected to resume publication this morning, but six others did not appear, after their managements, working in unison, issued identical and peremptory notices of dismissal to their NGA printers, effective from yesterday afternoon.

These are The Times and the Sun, published by News International; the Daily Mirror and Sporting Life, published by Mirror Group Newspapers; and the Daily Express and the Daily Star, published by Fleet Group.

The Newspaper Proprietors' Association on Saturday decided to dismiss their printers if no assurances of normal working were made by Mr Joe Wade, the NGA secretary. A statement following a further NPA council meeting yesterday said "Unfortunately, the required assurance from the union . . . has not been received. Members of the NPA will, therefore, act in accordance with yesterday's statement."

The Financial Times, the Guardian, the Daily Telegraph and the Daily Mail did not, however, follow the majority line. The Financial Times was published this morning and the others were also expected to appear.

All the national daily and Sunday newspapers have decided to issue writs for damages against the NGA. The total revenue loss of the weekend's disruption was put by Mr Douglas Long of the Mirror Group at £10m ($15m).

The division of tactics among the national newspapers was hailed as victory by representatives of the four-man committee of Fleet Street

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CRUISE COMPONENTS ARRIVE IN ITALY

# Andropov and Craxi clash over missiles

BY JAMES BUXTON IN ROME AND RUPERT CORNWELL IN BONN

DEPLOYMENT of new U.S. nuclear missiles in Western Europe has moved another step forward with the announcement yesterday that the first cruise missile components had arrived in Italy.

At the same time, Italy was drawn into the front line of East-West confrontation over the missiles issue by a sharply worded exchange between Sig Bettino Craxi, the Prime Minister, and Mr Yuri Andropov, the Soviet President.

Sig Craxi replied on Saturday to a letter from Mr Andropov, which arrived the day before and which the Prime Minister's office in Rome described as "threatening." In it the Soviet leader attacked the Italian decision to install cruise missiles, saying that by doing so, Italy was "consciously" aggravating East-West relations and stepping up the military threat to the Soviet Union.

The Soviet Union would have to take account of this in its future dealings with Italy, Mr Andropov said. If the West renounced the installation of cruise and Pershing missiles, however, the Soviet Union would give an "adequate response."

In his reply, Sig Craxi told Mr Andropov thet the Soviet Union bad created an "unacceptable" nuclear imbalance with with its SS20 missiles. "I am surprised that you are surprised (by the Italian decision) since the denunciation of this imbalance was made four years ago," he said.

Nothing was "irreversible," however, "the time required for dismantlement is shorter than that required for the operation of deployment," Sig Craxi said.

The Nato deployment programme was not an obstacle to negotiations: all that was needed was a "renewed will to negotiate on the part of both parties."

Meanwhile, the Ministry of Defence in Rome said that the first part of the cruise missile system had arrived at the Sigonella U.S. military base near Catania in Sicily. They will be taken later to Comiso, about 100 kilometres away, which will be their permanent base.

The ministry confirmed that the new missiles will not be operational until next March, when the first phase of work at Comiso, an old Second World War air force base, will be completed. It will eventually house 112 missiles.

Continued on Page 18

# Goa accord backs nuclear summit plan

BY ROBERT MAUTHNER IN GOA

THE HEADS of Government of 45 Commonwealth states yesterday adopted a declaration on international security which essentially endorses efforts by Mr Pierre Trudeau, the Canadian Prime Minister, to step up high-level political efforts to halt the nuclear arms race and improve East-West relations.

The document, to be known as the Goa Declaration, was approved at the conclusion of weekend talks in the tropical Indian coastal resort, a Portuguese colony until 1961.

Commonwealth leaders devoted some 11 hours to talks on Cyprus, Grenada, international security problems, particularly those of small states, and international economic issues.

A final communiqué will still be issued at the end of the conference, setting out its conclusions in more detail. However, yesterday's declaration calls on the Soviet Union and the U.S. to summon up the "political vision" to achieve world peace, instead of conducting disarmament negotiations merely at a technical level.

Their first objective, the declaration states should be to work for the resumption of a genuine political dialogue. Commonwealth Governments, the heads of Government consider, could make a substantial political contribution to these efforts.

Mr Trudeau has already left the conference to fly to Peking on the latest stage of his round-the-world trip to drum up support for his plan, which includes the calling of a special conference of the five nuclear states – the U.S., Soviet Union, Britain, France and China.

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CONTENTS

# OVERSEAS NEWS

## IBM hardens position on trade secrets with $7.5bn law suit

BY WILLIAM HALL IN NEW YORK

IBM, THE world's biggest computer manufacturer, has filed a $7.5bn (£5bn) law suit against National Semiconductor Corporation, which makes memory chips for computers, alleging that it co-operated with the Japanese to steal IBM trade secrets.

The law suit, the latest in a series of moves by the U.S. computer giant to safeguard its trade secrets, is an amended version of an earlier complaint charging Hitachi of Japan and several individuals, as well as National Semiconductor and its computer subsidiary, National Advanced Systems (NAS) with "racketeering and unfair competition".

The complaint, filed on Friday in a U.S. district court in San Francisco says "Hitachi, National Semiconductor, and NAS have been engaged since at least mid-1980 in a joint effort to obtain trade secrets and confidential information relating to IBM products that have not yet been publicly announced or become generally available".

IBM alleges that National Semiconductor and Hitachi, which jointly manufactured computers and software that is compatible with IBM equipment, formed an information gathering team, known as the Systems Study Group, to obtain secret IBM information which helped the two companies speed up their own product development.

IBM has estimated that the value of the stolen information

> IBM alleges that National Semiconductor and Hitachi formed an information gathering team to obtain secret IBM information which helped the two companies speed up their own product development.

was worth between $750m and $2.5bn or "about a year's worth of research and development," according to one IBM attorney.

Hitachi allegedly paid substantial sums to undercover agents for secret IBM information. The Japanese company has subsequently reached an out of court settlement with IBM.

IBM has been talking to national semiconductor for some time but has decided to file the law suit apparently because of the slow progress being made in reaching a settlement.

National Semiconductor's NAS computer subsidiary became involved in the IBM secrets theft case against Hitachi when confidential IBM documents were found at NAS headquarters in Mountain View, California, by FBI officers investigating the thefts.

According to FBI statements, the documents were allegedly stolen by two NAS employees who had previously worked for IBM. NAS dismissed the two employees within hours of the discovery of the documents and company officials claimed no knowledge of the IBM material. Criminal charges against the two were later dismissed when the U.S. Justice Department failed to comply with a court order to supply information relating to IBM's involvement in the undercover FBI investigation.

When the news that IBM might sue National Semiconductor was first publicised earlier this month the company dismissed the charges as "legal jockeying" and an attorney has accused IBM of trying to intimidate a small competitor.

## Madrid jet crash toll increases to 183

By David White in Madrid

THE DEATH toll from the Colombian Boeing 747, which crashed early yesterday morning while making its approach for an unscheduled stopover in Madrid, rose to 183, including all 24 crew members, according to revised figures from the Avianca airline and Spanish officials.

Eleven passengers were being treated in Madrid hospitals.

The cause of the crash, which occurred about two minutes before the aircraft was due to land at Madrid's Barajas Airport, just after 1 am, was not known, but it was speculated that one of its engines had caught fire. The aircraft's two flight recorders were picked up from the wreckage.

The aircraft had been flying at about 3,000 feet when contact with air traffic control was lost, an estimated half-minute before the impact.

The passengers who had boarded the Paris-to-Bogota flight were mostly South Americans, French and Germans. The flight was diverted to Madrid because of the cancellation of another Avianca flight from Frankfurt to Bogota with a stopover in the Spanish capital.

Fifty-four of the passengers had flown by Lufthansa from Frankfurt to Paris to pick up the flight. Another contingent of 146 passengers was due to board in Madrid.

The wreckage of the aircraft was strewn over a wide area near the village of Mejorada del Campo. A number of bodies in the front section of the Boeing were not expected to be removed until today.

The crash followed two earlier minor accidents involving Avianca aircraft at Madrid. In 1973, a Boeing 707 went off the runway in thick fog, and in September last year an Avianca Boeing 747 suffered a tyre blow-out.

King Juan Carlos yesterday sent messages of sympathy to President Belisario Betancur of Colombia and President François Mitterrand of France.

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## Athens in row with Nicosia over UK plan

A BITTER row erupted at the weekend between Athens and Nicosia after Dr Andreas Papandreou, the Greek Prime Minister, accused Mr Spyros Kyprianout the Cypriot President, of violating agreed policy by backing a British proposal for joint talks between Britain, Greece and Turkey on the Cyprus issue. Andriana Ierodiaconou reports from Athens.

Greece rejected, and Turkey accepted, the British proposal when it was made 12 days ago, following the declaration of an independent state in occupied northern Cyprus by Mr Raouf Denktash, the Turkish Cypriot leader. Britain, Greece and Turkey, are guarantors of the 1960 Cyprus independence agreement, which prescribes consultations in the event of a crisis on the island.

In statements from Bonn, where he was on an official visit, Dr Papandreou said that Greece is ready to join in tripartite talks.

## Maltese police raid on opposition party offices

BY GODFREY FRIMA IN VALLETTA

ABOUT 300 troops and police raided Malta's opposition Nationalist Party headquarters outside Valletta on Saturday night, in what Dr Eddie Fenech Adami, the party's leader, described as a blow against democracy on the island.

Print workers employed by the party's newspapers were rounded up and taken to police headquarters for questioning, according to a party official.

Dr Fenech Adami, who was allowed into the building after the raid started, was told police were looking for a cordless telephone set – equipment which is not allowed into Malta.

Most likely however, this was an abortive search or a party-linked clandestine radio station which broadcasts party programmes, including speeches made by Dr Fenech Adami.

Dr Fenech Adami held Premier Dom Mintoff personally responsible for the midnight swoop by police and armed troops on his party's headquarters.

The joint police military operation, according to Dr. Fenech Adami, lasted close to eight hours and involved more than one hundred policemen armed with hammers, crowbars and axes while 200 troops encircled the three-storey building.

Deputy premier Dr. Carmelo Mifsud Bonnici said arms had been found at the Nationalist Party headquarters (four hunting guns were apparently found by police). At his news conference, Dr Fenech Adami said the statement was the epitomy of irresponsibility.

The police found, in addition to the hunting guns, 120 cartridges, a number of steel helmets used by the party for theatrical performances, and a range of video and audio equipment.

Dr Fenech Adami said policemen involved in the search spat on the effigy of Dr George Borg Oliver.

# OVERSEAS NEWS

## Manila seeks $3.3bn in new loans to back refinancing package

BY EMILIA TAGAZA IN MANILA

THE PHILIPPINES will need about $3.3bn in new loans between now and the end of next year to back up its International Monetary Fund programme and the debt rescheduling it is seeking from commercial banks, Prime Minister Cesar Virata said at the weekend.

The figure has been agreed in discussion with the IMF, from which the Philippines is seeking a standby credit of SDR 615m ($646m), Mr Virata who is also Finance Minister, said on his return from Tokyo.

Half of tho $3.3bn new requirement would be raised from commercial banks, while the other half will come from multilateral lending agencies and foreign governments.

Mr Virata said that Japanese bankers and Ministry of Finance officials were "very supportive" of the Philippines' efforts to restructure some maturing loans and to acquire fresh money. "We then expect no problems with the Japanese banks when we go next week to tho advisory group in New York to negotiate the rescheduling and the new loans," he said.

He said that, of the total fresh loans needed, about $560m were being negotiated with multilateral institutions such as the World Bank and the Asian Development Bank. Slightly more than $1bn would come from foreign governments.

Mr Virata is optimistic that the Philippine application for tho SDR 615m IMF standby credit could help make it easier for the government to acquire the new financing requirements, Mr Virata and Mr Jaime Laya, the Central Bank governor, will visit Paris in about two weeks for talks with an international consortium dealing with Philippines Government debts.

Apart from the new loans, the Philippines is also negotiating for the re-structureing of somo $8bn in maturing short term debts into medim- or long-term loans. The Government has been unable to service due debts since September when the flow of new funds halted and foreign creditors refused two new revolving credits.

Creditors' anxiety heightened after the assassination last August 21 of the popular opposition leader Mr Benigno Aquino, whose death triggered massive anti-government protests and demonstrations. Banks have been concerned that the absence of a definite succession procedure could lead to chaos in Manila if President Ferdinand Marcos, who has been ill, suddenly dies.

## Seaga calls early election to get IMF mandate

BY CANUTE JAMES IN KINGSTON

MR EDWARD SEAGA, the Jamaican Prime Minister, has called au election for December 15 to seek a mandate for pursuing a recent agreement with tha International Monetary (IMF).

Mr Seaga said also that he had called the election because the opposition has accused him of deceiving tho country about the negotiations with tha fund, and wanted his resignation as Finance Minister.

Mr Seaga last week devalued the Jamaican dollar by 43 per cent to meet conditions for new credits of $180m from the IMF. It is the second time in just over three years that a Jamaican Government has called on early election to decide on relations with the IMF.

In 1980, Mr Michael Manley, the former Prime Minister, terminated negotiations with the IMF, and called an election while advocating that the country find an alternative to the fund. Mr Manley's social democrat Peoples National Party retained only nine seats in Parliament while Mr Seaga's conservative Labour Party took tha other 51.

Mr Seaga is attempting to make capital of a swing in popular support for his party, after trailing the opposition earlier in the year. In a public opinion poll commissioned and published yesterday by the island's only daily newspaper, the Labour Party leads the PNP by 52 per cent to 47 per cent.

The election is not due until October of 1985, but Mr Seaga is pushing it through now before the island feels the full effects of last weeks devaluation.

A round of price increases for fuel, food and utilities, promised by Mr Seaga, after the devaluation, could prove unpopular and are now expected to be imposed after the election if the Prime Minister is returned.

## Nicaragua hints at deal

BY TIM COONE IN MANAGUA

A GROWING number of statements and signals from Managua are indicating Nicaragua's desire to negotiate a solution to the Central American crisis.

Sr Tomas Borge, Minister of the Interior and one of the nine-member National Directorate of the Sandanista Party, said on Thursday that Nicaragua will withdraw all its foreign military advisers and freeze the arms race in Central America if other states in the region are willing to reciprocate.

Speaking at a conference of 150 U.S. medical workers in Managua, Sr Borge said Nicaragua was willing to start "immediate discussions."





## Ghana given pledges of Western aid

By Quentin Peel, Africa Editor

WESTERN AID donors have given their backing to a three-year economic recovery programme in Ghana, requiring $700m (£469m) in additional aid, following the drastic austerity measures and 90 per cent devaluation enacted in recent months by the government of Flt Lt Jerry Rawlings.

Pledges totalling some $150m—the amount sought for the first year of the programme—were made at tho donors' meeting in Paris, chaired by the World Bank. The entire programme is expected to cost some $3.9bn, of which slightly more than $1bn would be public sector investment.

The meeting marks an important endorsement by leading Western countries—including Britain, France, West Germany, Japan and the U.S.—and multilateral institutions, such as the Arab Bank for Economic Development in Africa, of Ghana's efforts to revivo its economy after more than a decade of decline.

It follows agreement in August on loans from the International Monetary Fund totalling SDR 359m (£255m) in August, and on World Bank programmes likely to total $150m by the end of the year.

These funds have been largely committed to an emergency import programme of spare parts, essential raw materials, emergency food and medical supplies.

Ghana has been severely affected by drought, reducing both food crops and hydroelectric power supplies.

The key policy measure taken by the Rawlings regime since April has been a huge devaluation which increased the purchasing power of the U.S. dollar from Cedis 2.75 to Cedis 30.

## South Africa to tax blacks and whites equally

By J.D.F. Jones in Johannesburg

SOUTH AFRICA is to introduce from next March a single tax system under which blacks and whites will pay the same rates of tax.

Mr Mickey van der Walt, the Commissioner for Inland Revenue, said the new system would be "based on one of the fundamental principles of our taxation system, namely equity, which requires that equal amounts of tax be required from all taxpayers in equal circumstances as regards taxable income, marital status and tax rebates."

The change was foreshadowed by Mr Owen Horwood, the Finance Minister, in his budget speech earlier this year. Under the existing system, lower-paid blacks tend to pay more tax than their white counterparts while more affluent blacks are sometimes better off than whites.

The fundamental point made by critics of the apartheid system has always been that Government revenues are allocated between tho population groups in a discriminatory way—to which the answer has been that the whites pay the bulk of the taxes.

Tho Commissioner's statement pointed out that the minimum taxablo income of a single person was now Rand 3,576 (about £2,050) a year.

## Hong Kong to test traffic control scheme

By Robert Cottrell in Hong Kong

HONG KONG has designated its central business district the testing ground for an innovative traffic control scheme. Originally developed by Britain's Department of Transport, the plan uses electronic signalling devices fitted to the car chassis and monitored by loops buried beneath the road surface. A car's movements can be collated on a central computer, and the motorist billed for use of congested routes.

The system will be introduced throughout Hong Kong's urban areas if a HK$36.5m (£3.1m) pilot scheme, involving about 3,000 cars, proves successful.

A third of these will be Government vehicles, with the rest drawn from fleets of local companies and transport operators that have volunteered to co-operate. No bills will be issued in the pilot phase.

Delivery of the "electronic number plates," supplied by Britain's Plessey Group, will begin in June. The pilot scheme is expected to be in operation by early 1985, with 18 sensors monitoring roads in an area roughly a mile by a half-mile in size.

Planners say the central business district was chosen for the pilot project because of its diversity of traffic conditions, including steep-gradient roads, multiple carriageways, complex junctions and high traffic volume.

## Thousands march in memory of Franco

MADRID – Tens of thousands of Spaniards marched through Madrid yesterday to mark the eighth anniversary of the death of Gen Francisco Franco, in the biggest extreme right-wing rally since the Socialists took power a year ago.

After a silent march along Madrid's main Castellana Boulevard, the demonstrators gathered in front of a statue of Franco to sing fascist hymns.

Elderly matrons with red and yellow Spanish flags pinned on their fur coats and decorated veterans of the victorious Franco forces in the 1936-39 Civil War marched alongside teenage girls wearing fashionable sportswear in the national colours and youths in fascist Falange party blue shirts and combat boots.

Some chanted slogans calling for an army takeover and the release of military plotters jailed for an abortive 1981 coup attempt, but there were no incidents. Security was discreet, with no riot police in sight of the marchers, few patrol cars, but two police helicopters circling above.

The rally was originally called for last Sunday's anniversary of Franco's death in 1975 and of the execution of Falange founder Jose Antonio Primo de Rivera by Republican forces in 1936.

The Madrid civil governor turned down a request by the organisers, the confederation of ex-combatants, to hold it at its traditional venue in front of the royal palace, on the grounds that violence had erupted there in previous years. The palace surrounds were sealed off and police barred groups of demonstrators from reaching the area.

Reuter

# WORLD TRADE NEWS

## Spanish-W. German group wins Colombia railway contract

BY SARITA KENDALL IN BOGOTA AND FRANK GRAY IN LONDON

A SPANISH-West German consortium has provisionally won a contract to build a rapid transit rail system in Medellin, Colombia.

The consortium, whose members are Entrecanales y Tavera of Spain, Maschinenfabrik Augsburg Nuremburg (Man) and Siemens of West Germany, did so despite a bid of $627m, substantially higher than that of other international concerns bidding for the project, including GEC Transportation Projects of the UK.

The formal awards of the contract will be made pending government adjudication of the consortium's bid.

The contract has been hotly contested by a number of international companies and consortia specialising in urban transportation projects, including companies from Switzerland, Belgium, France, Spain, Britain, Japan, Canada and the U.S.

A GEC-led consortium involving West German companies and a French group led by Francorail were widely believed to have the best chance at winning the deal because of attractive financing packages.

Senior GEC officials said yesterday they were "suprised and disappointed" at the apparent loss of the deal. They held out hope that the adjudication process might show that their financing, arranged by Samuel Montagu, the London merchant bank, was more advantageous. The GEC bid was 9 per cent less than that of the Spanish-German group.

"At the tender opening, we were well placed. We shall be in consultation with the Colombian Government on what went wrong," GEC said.

The other British group bidding for the project was Hawker Siddeley, in partnership with Canadia Urban Transport Development company.

Financing for the Spanish West German proposal will be handled by Kreditanstalt Fuer Wiederaufbau and the Dresdner Bank of West Germany, and the Banco Exterior de Espana, backed by Government export credits.

The Medellin metro, which consists of a 24 km north-south line and a five km east-west line, is Colombia's first and should be operational by 1988. A rapid transit project is being considered for Bogota, possibly to be decided in 1984.

## Bids lodged in Cairo for nuclear power plant

By Charles Richards in Cairo

EGYPT has received four bids for the construction of the first nuclear power plant in the Middle East, but details of financing estimated at more than $2bn (£1.35m) remain unclear.

Bids have been lodged by two American companies, Westinghouse and Bechtel, the West German Kraftwerk Union, and a French-Italian consortium headed by Framatome of France.

A fifth bid was received from the Swiss-West German company Browo Boveri (BBC) for the only conventional nonnuclear island, which includes the turbine generator.

Bids were invited for the construction of one or two 1,000 Mw pressurised water reactors (PWR) to be built at Al Dabaa on the northwest coast 160 km west of Alexandria.

After the announcement of bids at a meeting of the Nuclear Power Plants Authority (NPPA) the French-Italian consortium appeared to be the lowest bidders, followed by KWU, with the Americans most expense.

But industry officials pointed out that such preliminary comparisons of prices, in the region of $2.2bn, were misleading. Prices were quoted in a variety of currencies and Swiss consultants will take time to assess the bids and such items as spare parts

The bids also vary technically. Framatome alone bid for two units, the others bidding for one only with the further complication that KWU's bid is for a 1,040 Mw as opposed to 1,000 Mw unit.

Framatome presented an offer on behalf of the French-Italian consortium with Framatome and Nira bidding for the nuclear island, Alsthom Atlantique, and Ansaldo Impianti and Belleli for the conventional island, and Spie Batignolles Travaux Publiques and Cofefar for the civil works, Framatome also submitted an offer for the supply of nuclear fuel and Electricite de France (EdF) for personnel training.

Westinghouse has joined forces with Mitsubishi of Japan. Bechtel's main supplier is Combustion Engineering, possibly using BBC for the turbine generator, and KWU has turned to a number of Spanish and other European subcontractors, according to industry officials.

The financing terms are likely to be more crucial than the technical details and the price. In the original tender the NPPA declared that "bidders were invited to submit a complete technical, commercial and financial bid for the turnkey project. . . . Particular consideration will be given to the bid including the most favourable financial terms."

Mr Maher Abaza, the Egyptian Minister of Electricity, announced that $1bn from oil revenues would be available by the end of the year. The financial issue became more serious in August when the U.S. Export-Import Bank said it did not consider the Al Dabaa project viable and would not extend export cover to Westinghouse or other U.S. bidders although it would consider its position if European competitors obtaind cover from their Government export guarantee agencies.

The Egyptians hope assessments of the bids will take about six months.

DISPUTE OVER LOOK-ALIKE CAR

## Seat wins arbitration case against Fiat

BY DAVID WHITE IN MADRID

SEAT, the state-owned Spanish car maker, has won an arbitration case against its former partner, Fiat of Italy, which has been trying to prevent the Spanish version of its Ritmo saloon—the Seat Ronda—from being marketed independently in Europe.

Fiat took the dispute to the International Chamber of Commerce's court of arbitration in Paris, arguing that Seat was breaking the terms of a 1981 commercial agreement between the two companies by selling the Ronda outside Spain in competition with the original Ritmo.

The basis of Fiat's argument was that the Ronda was not sufficiently different from the Ritmo.

Since the ICC seeks to maintain strict confidentiality about its arbitration proceedings, Seat's announcement of the decision marks a departure from normal practice.

The ICC would not comment on the case but the verdict in Seat's favour was confirmed by independent sources as having been issued last Thursday.

Seat has already exported 27,000 Rondas this year, the first time it has sold cars abroad except through Fiat. It has set up 600 sales outlets, including in France, West Germany, Belgium, Holland and Italy itself.

The row with Fiat broke out last year at the same time as the Spanish concern made its agreement with Volkswagen of West Germany to start making Volkswagen models in Spain.

Seat has continued to provide Fiat-based models after its divorce from the Italian group three years ago. Fiat, a partner in the Spanish venture since it was set up in the 1950s, pulled out of a planned takeover of Seat.

The two companies' subsequent agreement allowed Seat to market its cars independently, on condition that they incorporated significant styling differences.

The Ronda, with a wider chassis and other changes from the Ritmo, was launched in Spain in June last year. Fiat has maintained that restyling, under the terms of their agreement, should include the lateral profile of the car, which is still practically the same for the Ritmo and the Ronda.

Seat said the ICC decision would enable it to continue exporting all the models of its Ronda series.

## Canada's EEC newsprint hopes supported

BY ROBERT GIBBENS IN MONTREAL

BRITISH AND West German publishers are throwing their weight behind efforts to get Canadian newsprint producers a permanent place in the European Community market.

Both groups of publishers want to continue buying Canadian newsprint on a duty-free basis after January 1.

At that time Scandinavian producers will be able to ship their product into Europe duty-free and without limit on quantity. The Scandinavian producers will be almost on a par with EEC domestic producers

The EEC Commission has issued a draft providing for major cuts in the duty-free quota for producers outside the European Free Trade Association (EFTA) nations. In effect this would cut Canadian shipments to Europe from about 700,000 metric tons yearly in recent years to 450,000 tons. Total EEC consumption is about 4m tons yearly, while domestic output is now about 1.4m rising to about 1.7m in another two years.

The Canadian Pulp and Paper Association said the Canadian case for continued duty-free access to the EEC market is getting support from the publishing groups because they want diversified sources of supply and cost flexibility once Sweden, Finland and Norway become the major import sources.

Negotiations between EEC and Canada may resume in December.

## Paris, Bonn to develop anti-tank helicopter

By Rupert Cornwell in Bonn

FRANCE and West Germany have virtually committed themselves to go ahead with a project to develop jointly a new anti-tank helicopter, which could go into service with the two countries' armed forces at the start of the 1990s.

An understanding on the scheme was signed here at the end of last week by Herr Manfred Woerner, the West German Defence Minister and his French opposite number M Charles Hernu.

Assuming the plan goes ahead—and a proviso is necessary given the collapse of previous intentions by Paris and Bonn to produce a new battle tank—the French army and the German Bundeswehr will each take slightly over 200 of the helicopters.

The development costs of the project are put here at around DM 600m ($227m), while the procurement contract to be placed by the Bundeswehr alone is reckoned to be worth over DM 3bn. It is understood that no decision has yet been taken on whether to employ U.S. nightsighting equipment on the helicopters, or whether they should be fitted with a yet-to-be-developed European system.

## China may join Franco-Italian aircraft project

By David Marsh in Paris

CHINA COULD help build a planned Franco-Italian regional aircraft, the 40-to-50 seater ATR-42, under a project being discussed with the French nationalised aerospace concern Aerospatiale.

A delegation from China's Xian Aircraft Corporation has just finished a visit to Aerospatiale plants, and will visit Italy to talk with Aeritalia, the other partner in the ATR project.

The aeroplane, due to fly for the first time next year, has already been ordered to the tune of about 60 units from a dozen countries, and the makers are pinning high hopes on clinching large orders from China.

An agreement with Xian, which could cover sub-contracting work on part of the rear aerofoil, would clearly give the Franco-Italian partners a greater chance of winning Chinese business. However, in view of mounting unused capacity at Aerospatiale's own aeroplane plants in France, the company will award sub-contracting work to China only if there are "clear perspectives" of forthcoming orders, according to an Aerospatiale official.

An Aerospatiale commercial team is due to go to China at the beginning of next year to discuss the project.

Given the huge potential size of the Chinese interior transport market, Aerospatiale is naturally keen to clinch an agreement. It already has strong commercial links in China as Aerospatiale's Dauphin helicopters are made there under licence by a local manufacturer.

### Steel order

Sumitomo Metal Industries said it received a Y1.1bn (£3.2m) order for 10,000 tonnes of high tensile steel from Norway's Ula Engineering Consortium, for shipment by end-June 1984, Reuter writes from Tokyo. The order includes 60 and 50 kilogram tensile steel plates, to be used for piles and plates for oil and gas development platforms in the Ula field off Norway.

## East Europe 'will export more to the West'

BY ANTHONY McDERMOTT IN GENEVA

THE COUNTRIES of Eastern Europe can look forward to a rise in exports to the West in the near future that will be in line with the economic recovery of the market economies, the annual report of the Economic Commission for Europe (ECE), says today.

The report by the Geneva-based UN agency says that the current account balance of the Eastern European countries with the West is likely to produce a surplus in 1983 of between $3bn and $4bn for the Comecon countries, and $7bn for the Soviet Union. This compares with a collective current account deficit of $5.5bn in 1981.

By contrast, East European import demand for Western goods is likely to be determined largely by convertible currency export revenues.

An important factor depressing imports in 1981 and 1982 "was the necessity to adjust external balances, first in response to a rising debt service burden and then, in addition, to the progressive reduction in access to new credit," says the report.

This process of adjustment—as seen in trade balances with the West—slowed substantially in 1983 and thus reduced the pressure on imports. Thus expansion in this area, particularly when the question of Soviet energy exports in an unsettled world market are taken into account, remains more uncertain.

The report says that on the basis of Western statistics, a visible trade surplus in favour of the West of $2.2bn in 1981 became a $900m deficit last year. On the basis of the first six months of 1983 the ECE estimates a deficit at $2bn for 1983. On the basis of national statistical publications, the ECE estimate the overall value of East European and Soviet exports in 1982 to the West at $46bn and imports at $44.7bn.

The 34-member ECE, set up in 1947, brings together representatives from all European countries and the U.S. and Canada. It specialises in a range of financial, economic, transport and environmental issues for the whole of Europe, but one of its particular strengths is the study of East-West trade and finance relations.

SHIPPING REPORT

## Report of Gulf sinking leaves rates unshaken

BY ANDREW FISHER, SHIPPING CORRESPONDENT

SHIPPING MARKETS took in their stride last week's news of the sinking of a Greek bulk carrier, the Antigoni, by an Iraqi-fired Exocet missile near an Iranian port.

Tanker brokers and operators have become used to reports—many unconfirmed in the past—of damage to merchant shipping as a result of the prolonged Iran-Iraq war.

But there was no evidence that crude oil carryings out of Iran's Kharg Island terminal were being disrupted, and chartering rates did not show any marked change over the week, which was also quiet as a result of holidays in the U.S. and Japan.

Japanese ship owners did again decide to keep their tankers out of Kharg Island after requests from the leading seamen's union. Japan has done this previously during the Gulf conflict for safety reasons.

It was also reported that Saudi Arabia chartered 11 large tankers for storage purposes. This could be partly in reaction to earlier Iranian threats to close the vital Straits of Hormuz if Iraq used its Exocets against Iran, but is also believed to reflect practical reasons, unconnected with the fighting.

Gulf trading was generally subdued, with Japan chartering a 220,000 ton cargo at Worldscale 33, similar to previous levels. Worldscale 36½ was paid for a 240,000 ton cargo from Kharg to Europe.

Brokers generally expect chartering rates to ease in the Gulf over the next few weeks, as inquiry has softened and a number of large tankers are due back in the area. Much of the full restocking by industrial countries is now thought to have been completed.

On the dry cargo side, there was a slightly firmer trend across the Atlantic for coal, with the rate for a 50,000 ton cargo from the U.S. gulf to Continental Europe rising from $9 to $9.75 a ton.

The General Council of British Shipping reported a modest three-point rise in its monthly tramp trip charter index for October. This measures single voyages in the dark cargo market and stood at 92 at end October, still well below levels of 1979, 1980 and 1981.

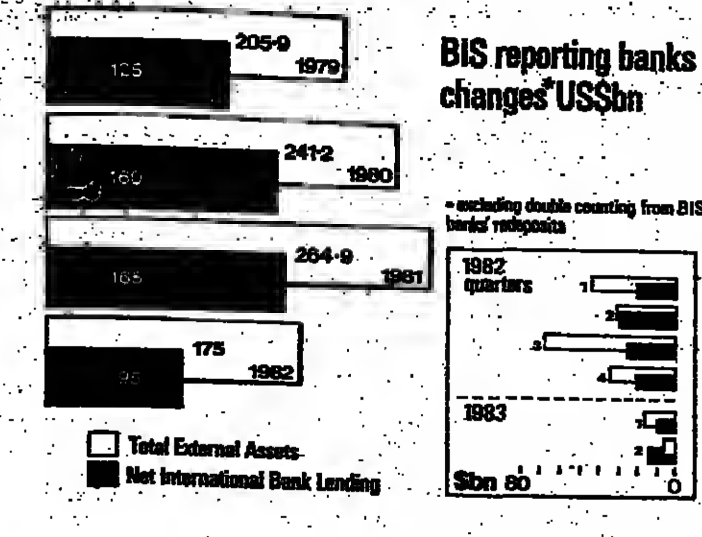
"The index is only at the level it was seven years ago, despite the massive increases in all costs since then," said the GCBS. "Far from making a profit, many ships are not even earning enough to cover their running costs, let alone their finance costs."

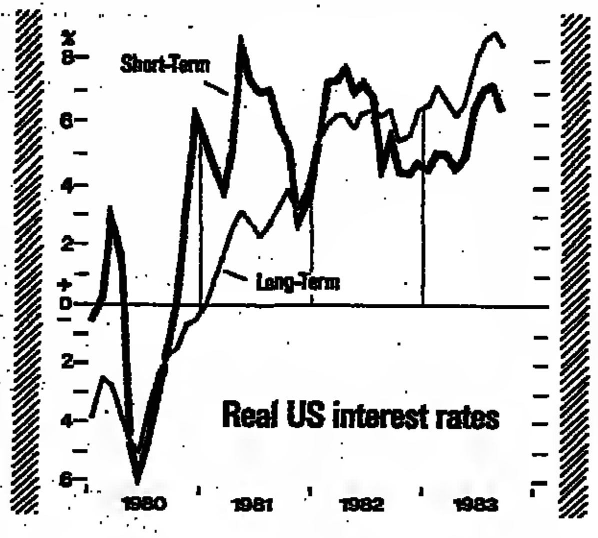
## World Economic Indicators

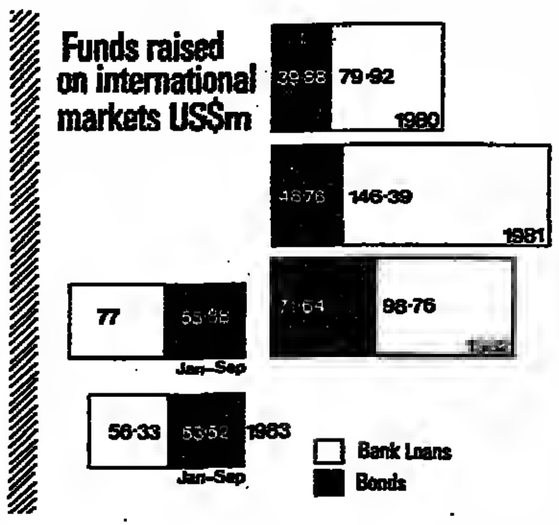
TRADE STATISTICS

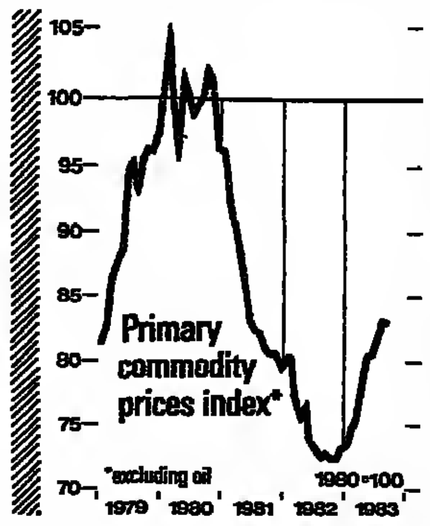
| | | Oct. '83 | Sept. '83 | Aug. '83 | Oct. '82 |
|---|---|---|---|---|---|
| Japan $bn | Exports | 12.58 | 12.30 | 12.45 | 10.81 |
| | Imports | 11.17 | 10.96 | 10.08 | 10.42 |
| | Balance | +1.41 | +1.34 | +2.39 | +0.39 |
| UK £bn | Exports | 5.17 | 5.23 | 4.93 | 4.67 |
| | Imports | 5.59 | 5.09 | 5.06 | 4.48 |
| | Balance | −0.42 | −0.14 | −0.14 | +0.19 |
| France FFrbn | Exports | 64.28 | 62.06 | 59.20 | 55.52 |
| | Imports | 65.18 | 61.74 | 62.20 | 62.58 |
| | Balance | −0.90 | +0.32 | −3.00 | −7.06 |
| | | Sept. '83 | Aug. '83 | July '83 | Sept. '82 |
| U.S. $bn | Exports | 17.387 | 16.630 | 16.629 | 17.320 |
| | Imports | 22.175 | 22.782 | 21.950 | 20.581 |
| | Balance | −4.788 | −6.152 | −5.321 | −3.261 |
| Italy Lbn | Exports | 9,480 | 7,191 | 9,651 | 7,537 |
| | Imports | 11,248 | 8,582 | 9,720 | 9,718 |
| | Balance | −1,768 | −1,391 | −69 | −2,181 |
| W. Germany DMbn | Exports | 37.8 | 32.4 | 33.20 | 34.82 |
| | Imports | 34.2 | 29.9 | 31.03 | 31.50 |
| | Balance | +3.8 | +2.5 | +2.17 | +3.32 |
| | | Aug. '83 | July '83 | June '83 | Aug. '82 |
| Netherlands Flbn | Exports | 14.22 | 13.54 | 15.84 | 12.70 |
| | Imports | 14.77 | 13.08 | 15.28 | 12.72 |
| | Balance | −0.55 | +0.54 | +0.56 | −0.02 |

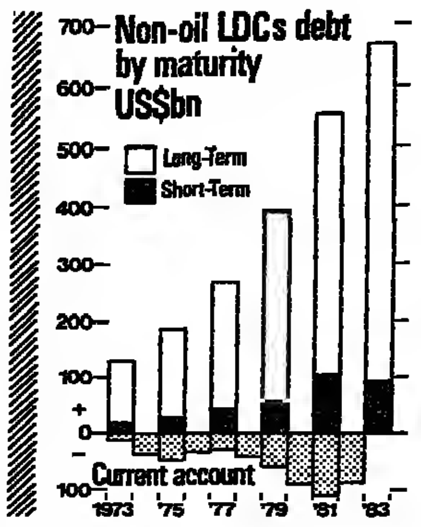
# STATISTICAL TRENDS: INTERNATIONAL DEBT AND FINANCING




## *Latin American debt crisis slows down bank lending*

*FOR THE FIRST time in 20 years, international bank lending slowed almost to a halt in the second quarter of this year. Total external assets of the Bank for International Settlements' reporting banks grew by only $6bn in the second quarter. This brought the first half total to $22bn, less than a third of the corresponding 1982 outcome.*

*The immediate cause was a drop in cross-border lending among the banks themselves, but a more fundamental reason is the impact of the Latin American debt crisis. Although lending to countries outside the area picked up from $0.5bn in the first quarter to $6.5bn in the succeeding period, these are way below the levels in recent years.*

*The rate of growth of lending began to slow in 1981, and sharper falls followed in 1982. The Polish crisis led to a cut in lending to Eastern Europe in the second half of 1981, and actual reductions in outstanding commitments to the area occurred in 1982.*

**REAL GROWTH OUTLOOK**
% Change

| | 1982 | 1983 | 1984 |
|---|---|---|---|
| All industrial countries | −0.5 | 2.1 | 3.5 |
| U.S. | −1.9 | 3.2 | 6.0 |
| Canada | −4.8 | 2.5 | 4.5 |
| Japan | 3.0 | 3.2 | 4.2 |
| W. Germany | −1.1 | 1.2 | 2.5 |
| France | 1.7 | −0.5 | 0.0 |
| Italy | −0.3 | 0.0 | 0.0 |
| UK | 1.9 | 2.3 | 1.8 |

Source: Morgan Guaranty.

*The Mexican payments crisis of August, 1982, brought a dramatic drop in lending to Latin America, which fell from $11.7bn to $0.2bn between the two halves of 1982.*

*The rise in the first six months of this year, concentrated in the first quarter, was almost totally due to "unspontaneous" bank credits associated with IMF lending. In contrast, non-oil Less Developed Countries (LDCs) outside Latin America continued to attract new money throughout the period.*

*The LDC debt crisis occurred as a result of the conjunction of the fall in world commodity prices, the recession in the OECD countries, rapidly rising interest rates and a high proportion of short-term debt.*

*Primary commodity prices have now risen from their trough, while oil prices have avoided collapse. The ratio of short-to-long term debt has fallen back to its 1974 level of 16 per cent.*

*The seven major debtor countries in Latin America achieved a trade surplus of $13½bn in 1982, and a projected $28bn this year. But this was almost solely due to drastic import cutbacks, which are not sustainable and threaten stability and economic growth. Current account deficits have also been reduced, but increased interest payments meant that the improvement was small in 1982, though it should be much larger this year. However, inflation remains high, and export and overall economic growth stagnant.*

*Export-gross national product ratios are low in Latin America compared with many Asian LDCs. While South Korea, for example, has a bigger debt than Brazil in terms of GNP, it is more manageable in relation to exports.*

*This has led to the conclusion that an export orientated strategy is a key to reduction of the debt burden, requiring domestic policy changes. Export growth obviously also requires economic recovery in the OECD area. Here the picture is mixed: U.S. recovery is strong, but Europe reveals only stagnation or mild growth. The Japanese recovery is moderate compared with past performance.*

**INDUSTRIAL COUNTRIES:**

| | Growth of real GNP | Growth of real inv'tm'nt % change | M'tary growth | Current act $bn |
|---|---|---|---|---|
| 1977 | 4.0 | 6.3 | 10.7 | −15 |
| 1978 | 4.1 | 5.7 | 10.2 | −15 |
| 1979 | 3.4 | 4.0 | 9.5 | −12 |
| 1980 | 1.3 | −1.2 | 8.3 | −31 |
| 1981 | 1.2 | −0.1 | 7.8 | −15 |
| 1982 | −0.3 | −3.3 | 10.6 | −17 |

†Seven largest countries

Source: IMF

*The U.S. budget deficit and generally expansionary fiscal stance has boosted the country's recovery, but kept interest rates high. These high real rates have not cut off U.S. growth, but do present a major problem for LDC debtors. Some calculations show interest rates as being even more important than OECD economic growth in reducing LDC current account deficits.*

*The role of the IMF has been extremely important in maintaining credit to the debtor countries. Its commitments rose by 60 per cent in the year to June 1983, but its available resources have been severely strained.*

*The alternative to quota increases—which have taken protracted negotiations to get through the U.S. Congress—is for the Fund to borrow on the commercial markets. But this does carry the risk of weakening the Fund as an intergovernmental body, and may merely divert funds away*


### Gross Lending
by BIS reporting Banks, by area. $bn

| | | Other developed | East Eur. | Opec | Latin America | Other non-oil LDCs | Total |
|---|---|---|---|---|---|---|---|
| 1979 | I | 2.7 | 2.2 | 1.5 | 8.5 | 6.3 | 21.2 |
| | II | 4.8 | 4.9 | 5.7 | 14.7 | 5.8 | 35.9 |
| 1980 | I | 7.3 | 1.9 | −0.9 | 10.3 | 4.1 | 22.7 |
| | II | 8.1 | 4.8 | 7.8 | 17.0 | 7.5 | 45.3 |
| 1981 | I | 8.5 | 3.0 | −1.0 | 8.4 | 2.9 | 22.8 |
| | II | 8.3 | 1.8 | 5.2 | 21.0 | 6.6 | 42.9 |
| 1982 | I | 9.2 | −3.1 | 4.9 | 11.7 | 3.7 | 26.4 |
| | II | 6.7 | −1.6 | 3.4 | 0.3 | 4.4 | 13.2 |
| 1983 | I | 1.3 | −1.1 | 0.8 | 3.7 | 2.1 | 6.6 |

Source: BIS

### External Debt Indicators
(Non-Oil LDCs %)

| | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|
| Bank debt/exports | 77 | 76 | 74 | 83 | 93 |
| Bank debt growth | — | 26 | 25 | 21 | 8 |
| Export growth | 15 | 29 | 26 | 6 | −4 |
| Bank debt/imports | 38 | 34 | 29 | 26 | 32 |
| Import growth | 19 | 30 | 26 | 6 | −10 |
| Bank debt/GNP | 13 | 14 | 14 | 16 | 17 |
| GDP growth | 16 | 22 | 19 | 4 | −1 |

Source: BIS, IMF

### U.S. Fiscal stance

| | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|
| Fed. Budget $bn (Fy) | −57.9 | −110.6 | −195.4 | −195.5 |
| High Emp. Budget $bn | −3.2 | −32.6 | −40.1 | −35.0 |
| % change in real money† | | | | |
| M1 | −2.5 | 4.6 | 8.3 | 1.2 |
| M2 | 1.2 | 5.3 | 7.4 | 2.2 |
| M3 | 3.0 | 5.8 | 4.9 | 2.0 |

† Dec.-Dec.

Source: Simon and Coates.

### Debt and Exports

| | Export/GNP ratio % 1981 | Average External debt 1983† as % of 1983 GNP | Average External debt 1983† as % of 1983 Exports |
|---|---|---|---|
| Brazil | 8.9 | 43 | 359 |
| Argentina | 9.5 | 53 | 424 |
| Chile | 18.7 | 90 | 290 |
| Mexico | 12.4 | 61 | 275 |
| Peru | 20.3 | 85 | 331 |
| Venezuela | 30.5 | 44 | 196 |
| S. Korea | 41.4 | 55 | 130 |
| Malaysia | 55.0 | 37 | 70 |
| Taiwan | 53.7 | 17 | 30 |
| Philippines | 19.1 | 80 | 259 |
| Indonesia | 27.6 | 34 | 146 |

† Average of end 1982 and end 1983 (estimate).

Source: IMF, Morgan Guaranty

### Government Deficits
% of GNP

| | 1982 | 1983 |
|---|---|---|
| U.S. | −3.8 | −4.4 |
| Canada | −5.3 | −6.5 |
| Japan | −4.1 | −3.4 |
| W. Germany | −3.9 | −3.7 |
| France | −2.6 | −3.4 |
| UK | −2.0 | −2.5 |
| Italy | −12.0 | −11.6 |

Source: Morgan Guaranty.

### OPEC surpluses $bn

| | Current account balance | Oil sector capital transactions | Net borrowing | Cash surplus |
|---|---|---|---|---|
| 1974 | 68 | −12 | 2 | 58 |
| 1975 | 35 | 1 | 3 | 39 |
| 1976 | 40 | −6 | 6 | 42 |
| 1977 | 30 | −1 | 10 | 39 |
| 1978 | 2 | 2 | 16 | 20 |
| 1979 | 69 | −9 | 10 | 70 |
| 1980 | 114 | −1 | 6 | 121 |
| 1981 | 65 | 2 | 5 | 72 |
| 1982 | −2 | 3 | 9 | 10 |

Source: IMF

### Latin American LDCs

| | 1981 | 1982 | 1983 |
|---|---|---|---|
| Current acc balance $bn | −32.2 | −29.8 | −11.0 |
| % of exports | −30.0 | −30.9 | −11.7 |
| Real GDP growth % | 2.2 | −0.9 | −3.9 |
| Inflation % (end-period) | 50.9 | 82.6 | 105.8* |

†Argentina, Brazil, Chile, Ecuador, Mexico, Peru, Venezuela. *June 1983.

Source: Morgan Guaranty.

### IMF Credit $bn

| End-period | Standby and extended arrangements | Undisbursed |
|---|---|---|
| April 1979 | 2.0 | 1.8 |
| April 1980 | 3.9 | 3.4 |
| April 1981 | 11.5 | 9.8 |
| June 1982 | 16.0 | 10.8 |
| June 1983 | 26.9 | 15.9 |

Credit outstanding to LDCs†: Changes (Estimate)

| | 1981 | 1982 | 1983 |
|---|---|---|---|
| US$bn | 1.47 | 1.11 | 7.16 |
| % of curr. acc. deficit | 0.0 | 2.4 | 29.0 |

†14 major LDCs.

*Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department.*

## GOVERNMENT TO REVIEW POWER INDUSTRY STRUCTURE

# British Gas an agreed candidate for sell-off

BY IAN HARGREAVES

A DETAILED review of the shape of the electricity supply industry, probably involving a Government Green Paper (discussion document) is likely before any attempt is made to privatise parts of the electricity industry.

But British Gas is now an agreed candidate for sale during the next five-year programme of privatisation, so long as the Treasury and the Department of Energy can reach a compromise on detail and upon an acceptable regulatory regime.

These are the two main points which have emerged in talks between the Treasury and the Department of Energy as part of a series of bilateral discussions within Whitehall aimed at identifying a rolling programme of privatisation by next January.

The Treasury has pressed Mr Peter Walker, the Energy Secretary for a positive response on privatisation. Mr Walker's position is that privatisation is worthwhile only so long as it can be done with the support of the management and work forces of the industries involved, within an effective regulatory framework.

In examining electricity, Energy Department officials have concluded that it is impossible to consider significant privatisation without first resolving the structural questions raised in the 1976 Plowden Report on the electricity supply industry.

The Department of Energy is anxious to explore the following questions:

- Should there be a publicly-owned National Grid as a link between possibly privatised generating boards. If so, how should the Central Electricity Generating Board be broken up?
- How would regional imbalances of power availability and differences in cost – effectiveness be managed in a private sector context?
- Would the public be happy to see nuclear power stations in private sector hands?
- How would the industry be regulated? And would the disturbance to organisational structures produce worthwhile benefits?

# Halewood backs Ford strike

BY DAVID BRINDLE, LABOUR STAFF

A MASS meeting of workers at the Ford body and assembly plants at Halewood, Merseyside, yesterday voted for a strike over the company's 7.5 per cent pay offer.

Meetings have now been held at plants employing about one-third of Ford's 44,500-strong manual workforce and all but one have supported the union negotiators' call for a strike from January 3.

However, the company believes that most of the more militant plants have voted first and that the majority will still reject a strike. It says it was encouraged by what it understood to be a close vote at Halewood.

The key to the outcome is likely to emerge tomorrow when workers at Ford's factories at Dagenham are due to vote. Although the 7.5-per-cent pay offer compares well with other groups in the current round, union leaders have been angered by the company's refusal to respond to claims on non-pay issues such as holidays, pensions and consolidation of supplements. Staff unions are also calling for a strike.

Workers at the parts division at Daventry, Northamptonshire, are the only Ford group so far to reject the strike proposal.

Union spokesmen were quick to draw lessons from the early votes. Mr Steve Broadhead, a convener at Halewood, said: "Ford would be rather foolish to ignore this trend. The feeling nationally seems to be overwhelmingly in favour of rejecting the offer."

# Motor industry faces trade deficit

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BRITAIN'S BALANCE of trade in motor industry products has been battered severely by record car sales this year. As a result, there was a £2bn deficit in the first nine months and now the industry expects imports to outweigh exports by £2.5bn in the full year.

Significantly, the first year that Britain's motor trade went into the red was in 1979, when both car and commercial vehicle sales reached record levels. In 1979, the industry's deficit was £287m, compared with a surplus of £763m the previous year.

In 1981, when sales dropped sharply, there was a positive trade balance again – of £469m.

But last year there was a deficit for the second time of £973m. This year, as in 1982, the success of commercial vehicle importers played an important part in the overall adverse picture.

It now seems certain that Britain's commercial vehicle manufacturers will suffer their first trade deficit this year. In the January-September period commercial vehicle imports were worth £432m, compared with £282m in the same months of 1982, while exports were £338m, down from £391m.

The UK manufacturers' traditional export markets in Africa have all but dried up.

In spite of improved export volumes at BL, the overall cars deficit increased by 44.6 per cent in the nine months. As car registrations rose to an all-time high, so did the value of imports (to £2.87bn against £2.21bn). Exports fell in value from £687m to £672m.

# CBI sees slacker growth in 1984

By John Lloyd, Industrial Editor

LATEST FORECASTS from the Confederation of British Industry (CBI) show a continued expectation of modest rise in output over the next four months – but a lower rate of growth in 1984 than the 3 per cent achieved this year.

The CBI's monthly trends enquiry for November shows a further strengthening in companies' order books, and a greater expectation among businessmen of increased volume of output in the coming months.

The report notes that order books remain stronger for companies producing consumer goods, but the results also point to companies in the capital goods sector experiencing rapid demand.

Export order books are also reported to have risen – although only in the consumer and intermediate goods sector.

The lower rate of growth forecast is also below the 3 per cent forecast for 1984 by the Treasury. However, it also believes that "falling wage settlements and higher productivity growth should help to ensure that retail prices will rise by no more than 5 per cent during 1984."

It forecasts an improvement in the financial position of companies and a continuing low level of corporate borrowing from the banks. Public borrowing is expected to overshoot the Government's financial target of the financial year, but monetary growth is expected to stay within the target range.

World trade is expected to expand more rapidly in 1984 than in 1982 or 1983, but it "could be limited by the sluggish European pick-up and by depressed demand from both oil and non-oil developing countries."

The prices of manufactured goods are forecast to rise by about 4 per cent next year, compared with 3.5 per cent in 1983. Oil prices are likely to rise by a similar percentage.

Sir James Cleminson, the CBI deputy president and chairman of its economic committee, said: "To do better, UK companies will need to win a bigger share of both overseas and home markets. This can be achieved only by further improvements in competitive... There is still a long way to go."

# UK NEWS

## NCB oil extraction project goes ahead

By Maurice Samuelson

THE National Coal Board (NCB) is to spend £500,000 designing a pilot plant to extract oil from coal.

It intends to show the possibilities of using Britain's large coal reserves as a feedstock for petroleum once North Sea oil reserves dry up.

The work will take place at Point of Ayr colliery, North Wales. The plant will produce 2.5 tonnes of oil a day – only a tenth of that envisaged when the idea first won the backing of the Government more than four years ago.

The original scheme, in which British Petroleum and the U.S.-based Phillips Petroleum were to have been involved, would have cost about £55m. This plan was abandoned last year after both companies withdrew their promised stake of £20m.

In spite of its reduced scale, the plant could still cost more than £30m to build. Babcock Woodall-Duckham, part of Babcock International, will carry out detailed costing, design and specifications under an initial contract awarded jointly with the Department of Energy.

The NCB is still in touch with Phillips Petroleum and other U.S. companies about an involvement in the project.

## Cable and Wireless share sale will raise further £262m

BY RAY MAUGHAN

THE GOVERNMENT is to raise at least £262m after expenses by selling another tranche of its holding in Cable and Wireless. The disposal, through an offer for sale by tender, will cut the Government's stake from 45 to 23.1 per cent and bring asset sales in the present financial year to within £75m of its £1.25bn target.

Just over half of the telecommunications group was transferred into private hands from state ownership two years ago when the Government raised £224m gross. It sold 133m shares at 168p, the equivalent of 112p after a recent bonus issue.

At the end of last month, the Government said that it was considering a further disposal, although the timing and amount would be subject to market conditions.

Market conditions are now judged to be favourable and, accordingly, underwriting has been completed for the sale of 100m shares at a minimum price of 275p. Applications must be for at least 100 shares and the lists will open next Friday.

As in recent asset sales from the public sector, notably the disposal of a further tranche of British Petroleum, the Government is attempting to attract applications from private investors and from Cable and Wireless employees.

Anyone applying for 1,000 shares or less may either make a tender application or a striking price application.

It is thought that the striking price and the basis of allocation will be announced on Monday December 5. Preferential consideration will be given to striking price applications and tender applications above the striking price.

Announcing the terms of the sale, Mr John Moore, Financial Secretary to the Treasury, told the House of Commons that the Government had no plans to sell any of its residual holding.

CITY UNIVERSITY PROJECTIONS FOR THE ECONOMY

## Unemployment level may halve by end of decade

BY ROBIN PAULEY

UNEMPLOYMENT should halve by 1990 and the present recovery should continue well into 1985. By that time, corporate profitability should have reached double the 1983 level, according to a City University Business School forecast published today.

The forecast considers three projections. In the first, the present level of unemployment is considerably above the so-called natural or equilibrium rate. In the second, the labour market does not function properly and unemployment remains at high levels and in the third the volume of public expenditure grows at an extra 1 per cent above that assumed in the first option.

The first option gives GDP growth of 4.9 per cent next year followed by 3.3 per cent in 1985 and 1.8 per cent in 1986-90. Unemployment falls to 2.8m next year and 1.7m in 1986-90 and the profitability rate rises from 4.1 per cent in 1983 to 7.3 per cent in 1985.

In the second projection, where the labour market fails to function, GDP growth rises from 2.2 per cent this year to 4.8 per cent next year, but then falls back to 2.8 per cent in 1985 and 0.5 per cent in 1986-90. Unemployment falls from 3.1m this year to 2.9m next year and 1985, but then rises again to 3.4m in 1986-90.

The profitability rate rises to 5.8 per cent next year and 6.6 per cent in 1985 and then recedes to 4.4 per cent in 1986-90. The real exchange rate falls to 101 in 1991-95.

The third projection, with faster growth of public expenditure, gives unremarkable results after 12 months with GDP up only 0.9 per cent and unemployment 200,000 lower than in the first option.

Despite the extra growth in output, and therefore in incomes and tax receipts, the public sector borrowing requirement (PSBR) cost accumulates over the years to add more than £9bn to the PSBR by 1995. This extra deficit is financed in part by the expansion of the money base, and consequently the inflation rate also rises.

The forecast says the inflation trade-off for reduced unemployment by increasing public spending seems quite reasonable at the end of five years – an extra 2 per cent of inflation for a 1 per cent reduction in the number of unemployed.

After five years, however, the unemployment effect begins to level out while the inflation cost rises indefinitely



## Futures overseer to be appointed

BY MARY ANN SIEGHART

LONDON futures exchanges will be appointing a chief executive this week to run the watchdog committee they have formed to protect investors.

Mr Alistair Annand, 52, former managing director of the Manbré & Garton sugar company, will run the committee in charge of setting up a new Association of Futures Brokers and Dealers. The association will consist of members of the London International Financial Futures Exchange, the London Commodity Exchange, the London Gold Futures Market and the Grain and Food Trade Association.

The umbrella Association will implement a code of conduct for handling clients' business, a compensation fund in the event of a member's default, and a complaints procedure. It will also look into the possibility of the segregation of investors' and brokers' funds.

It is hoped that eventually all members of futures exchanges will have to join the association in order to trade. The association will then have the ultimate sanction of expelling or suspending a member in the event of malpractice.

The idea of a watchdog committee sprang from recommendations in the report by Professor Jim Gower on investor protection.

Mr Annand will take up his appointment on December 1 and the association is expected to be formed during the first half of next year.



## Cossor and Marconi bid for RAF radar order

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

TWO MAJOR UK electronics companies, Cossor Electronics and Marconi Radar Systems, are fighting for a £10m-plus Royal Air Force order for advanced airfield radar systems. The contract is likely to be awarded before the end of the year.

The RAF wants to re-equip all of its UK airfields with what are called "Monopulse secondary surveillance radars". These will substantially improve the ability of ground controllers to determine the height, direction and identity of aircraft.

Cossor Electronics has already won orders for its own Monopulse radar system from the Civil Aviation Authority (which is testing the system at London's Heathrow Airport and at Debden, Essex), and also from Geneva Airport, Switzerland, and the new King Khaled International Airport in Riyadh, Saudi Arabia.

Marconi Radar Systems has recently developed a new Monopulse secondary surveillance radar.

Increasing volumes of air traffic in the rest of this century are likely to throw considerable strains on air traffic controllers, and the market for improved radar systems is expected to grow quickly.

Although it is difficult to quantify the potential value of such markets, it is considered certain to run eventually to hundreds of millions of pounds. As a result competition is mounting swiftly, with U.S. radar companies in particular, vying with the British groups for the business.



## New offer in Shell pay dispute

By Our Labour Staff

OIL REFINERY workers at Shell UK's Shellhaven plant have been made a new pay offer which looks likely to end their four-week-old strike.

Shop stewards are expected to recommend acceptance of the offer at a mass meeting of 500 Transport and General Workers' Union members later this week.

However, it is by no means clear whether the formula – if extended – would prove acceptable to the 2,400 workers who have been on strike for six weeks at Shell's largest refinery at Stanlow, Cheshire.

The new offer at Shellhaven, described by the company as "full and final," came after nine hours of talks on Friday and a further nine-hour bargaining session

It does not increase basic pay rates by anything above the 4.5 per cent already tabled, but consolidates £2.50 a week of allowances into the basic. It also increases remaining allowances by 4.5 per cent, provides for a one-off payment of £50 per head, and is a 12-month deal back-dated to October 1.

The offer, which is similar in its consolidation element to that made to Shell's 1,750 tanker drivers and depot workers, is expected to be extended to craft workers at Shellhaven and to the workforce at Stanlow.

Last Friday, the Stanlow union negotiators rejected a deal worth 6.2 per cent over 19 months

# TECHNOLOGY

EDITED BY ALAN CANE


MAJOR PROGRESS IN AUTOMATED METHODS OF FABRICATING SEMICONDUCTORS

## 'Vacuum clean' means high yields

BY DAVID FISHLOCK, SCIENCE EDITOR

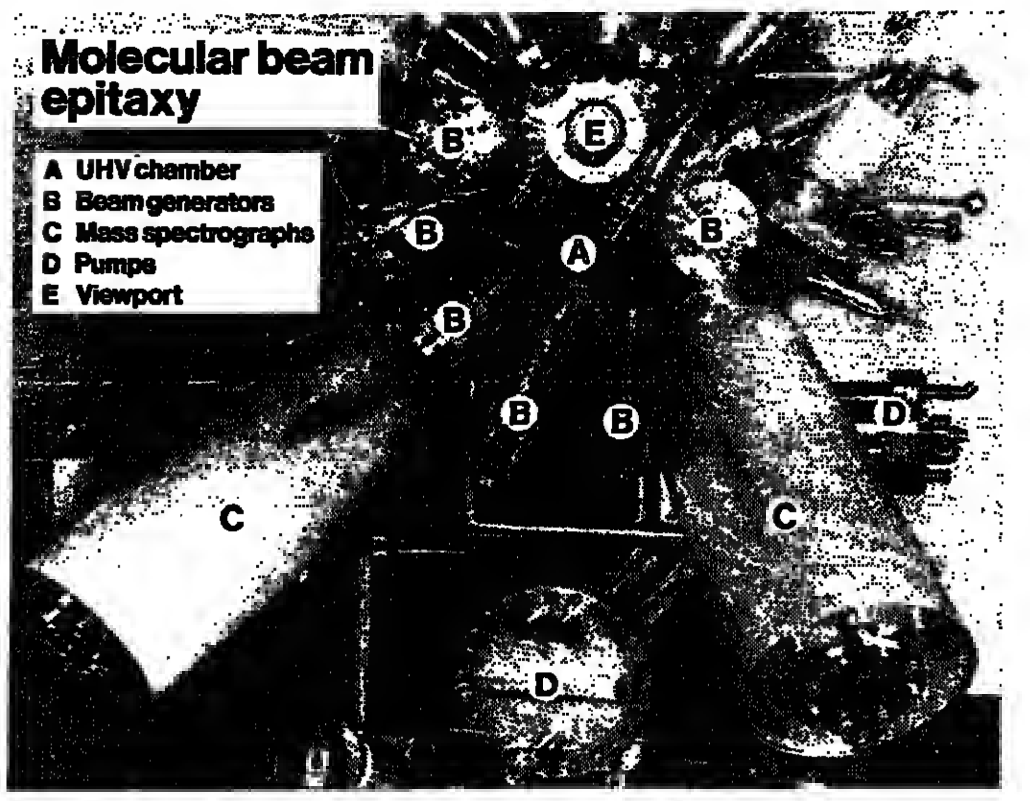
A FIRM of scientific "plumbers" based in Crawley boasts that it has grown rapidly throughout the recession. Its skills are focused on sealing its systems so that nothing leaks in, rather than oothing leaks ont.

They dream of the day when a manufacturer will order the first complete production line to run in ultra-high vacuum. For the most advanced concepts in semiconductor devices, the day when no humao intervention can be permitted may not be far off.

But the plumbers came within a whisker of missing the technical opportunity in the late-1970s which promises to be the higgest growth point of the group for the next few years.

"Every major electronics company is getting into molecular beam epitaxy," says Dr Eric Millett, of Philips Research Laboratories at Redhill. Britain is designatedd as the focal point of Philips's research activity in molecular beam epitaxy (MBE) and Millett is in charge of MBE research on such compound semiconductors as gallium arsenide.

Philips itself has designed and built its own ultra high vacuum (UHV) systems, both for research and production, using components made by the plumbers. Now it may buy its first complete system for MBE research at Redhill, from its neighbours, the VG Instruments group, at a cost which could he so high as £500,000, depending on the complexity finally specified.




The "golden porcupine" at the heart of VG Instruments research.

### Elegant

MBE is an elegant method of preparing semiconductors by evaporating the pure elements and depositing them virtually atom-by-atom. Experiments began in the early-1960s. Not until the late-1970s, however, was the "vacuum hygiene" good enough to yield good devices.

Success eventually came to Bell Laboratories in 1977, using a combination of UHV, vacuum instrumentation, clever vacuum evaporation techniques, and real-time process monitoring that followed a stipulated recipe.

VG Instruments was founded 21 years ago by Bernard Eastwell, a researcher at Mullard (now Philips) Research Laboratories, who recognised that progress in electronics was going to depend crucially upon progress in UHV. Eastwell first tackled the toughest challenge, moving parts such as valves, which in UHV shed their protective skin of oxygen atoms and can then weld solid when pressed into contact with equally clean metal surfaces.

By the mid-1960s the demand was to know much more abont what went on in UHV. So Eastwell hegan to develop a range of highly sophisticated scientific instruments for studying materials in vacuum conditions as high as 10-11 mbar—the kind of vacuum found far out in space. For comparison, high vacuum is usually considered to be pressures down to only 10-6 mhar. Measuring the quality of the UHV itself has become a major technical challenge.

By the late-1970s, VG had a thriving business supplying UHV components and instruments to many of the world's leading electronics research centres. It was ready to offer the scientists complete systems. But within the company there was disagreement. VG Scientific, the subsidiary closest to this market, considered it too great a risk.

As Eastwell sees it, the row vindicated his policy of creating subsidiaries to exploit each new UHV market opportunity. Each of the nine subsidiaries is its own profit centre, funding its own research. Key staff take equity in their subsidiary.

VG Vacuum Generators at Hastings, the subsidiary which specialised in UHV components, picked up the opportunity in MBE systems. It nursed the market while the researchers slowly mastered MBE and orders for systems began to build up. Only in 1981 was MBE handed over to VG Scientific as a lusty new business sector.

### Support

Peter Robinson, managing director of VG Scientific, also pays tribute to the Department of Industry for "fantastic" support in the form of pre-production orders for these expensive and intricate systems. About 50 per cent of his output is custom-made to the specification of his client.

An MBE system consists of a small, cylindrical vacuum chamber bristling with pipes, ports, and observation windows which almost obscure the chamber itself. But the basic features of an MBE system are an evaporation system (horizontal for compound semiconductors, vertical for silicon), an analytical tool for quality control, and a computer to drive the system according to a programmed recipe.

The VG system has been designed to allow a great variety of sub-systems to be attached to the "bristles," for example special evaporation requirements for troublesome elements such as mercury, or an electron diffraction instrument that will count the layers of atoms as they settle.

Whatever doubts VG Scientific may have suffered about the future of MBE — and they say their chief rival, Varian also decided at one stage that it was too risky — they have none today. The glittering stainless steel plumbing, golden after baking to get rid of contaminants, is worth up to £600,000 per system. Profits are good — exceeding 20 per cent — for the few who can engineer such complex systems, says Mr Ken Anderson, technical director of VG Scientific.

Business in MBE has boomed six-fold in the past year, with orders from Bell Labs, Hitachi, McDonnell Douglas, Japan's new national opto-electronics centre, and others. The U.S., Japan and France are leaders in MBE research. Competition for MBE systems, according to Philips, are Varian and Perkin Elmer in the U.S., Arelva in Japan, and Riber SA, a Belgian-owned company, in France. For VG, a particularly attractive proposition must be the Science and Engineering Research Council's plans to spend generously in this area in an effort to help British semi-conductors research to catch up (see this page, September 26).

### Battle

Although the VG Instrument group is currently caught up in a takeover battle involving Eagle Star, which through its Grovewood subsidiary owns 94 per cent (Eastwell himself still owns 6 per cent), two VG plans remain on course, Eastwell says. One is for a public flotation of VG early in December.

The other plan acknowledges the boom market for MBE by spinning off a new subsidiary, VG Semicon, to specialise in MBE and related business for the leading semi-conductor laboratories. Ken Anderson, who re-designed the MBE system to cut costs and increase its versatility, will be its managing director.

As Anderson sees it, his new company will be asked to engineer still more complex UHV systems, incorporating more and more VG sub-systems, as the art of MBE evolves to make such prodncts as circuits 100 times faster than those availabletoday, such as supercomputers will need.

Ultimately, he is convinced, the standard of hygiene needed will require all semi-conductor manufacturing operations to be done within UHV. This goal—"just a twinkle today"—is being brought closer by Bell Labs' recent achievements in "beam writing," which could eliminate processing stages currently incompatible with UHV.

INTELLIGENT WORKSTATION

## More power on the desk top

BY PAUL WALTON

A NEW workstation from Mohawk Data Sciences (MDS) is claimed to "out-think" the IBM PC (Personal Computer) and talk more intelligently to the IBM mainframes at the heart of large corporate networks.

Hot on the heels of IBM's own announcement of a link between its PC and the corporate mainframe, MDS has launched networked workstations called Hero which are claimed to do exactly the same thing as IBM only faster and with more flexibility.

Mr Richard Henry, MDS marketing director and the man responsible for its European launch said: "The essential difference between IBM's PC/3270 and Hero is that we can offer more power on the desk and intelligent communication with tha mainframe before IBM.

"We had to wait until IBM announced that its 3270 protocol would form the basis of an office network, linked into the mainframe. It gave their blessing to something which we had anticipated."

The Hero workstation is compatible with the IBM PC because it can read data from their disks and run the same applications software using the MS/DOS operating system.

Each Hero workstation is part of a network which is linked to the IBM mainframe by a communications processor the Super 21, which replaces the equivalent IBM 3274 box. Mr Henry said that this second processor has MDS's own software, called "Intelligent 3270," which "allows the Hero to out-think IBM's own PC-to-mainframe connection."

He said that under an IBM network the PC/3270 can only work as if it were a "dumb" terminal accepting or inputting data to the mainframe, but by using the MDS Super 21 and its software: "Hero can out-think the PC."

IBM's 3270 link is known as cluster control because it allows the connection of multiple terminals all of which might want to run the same program or software application on a main-

The Hero's Intel 80186 processing chip is powerful enough to process not just PC software on the desk, but also to process applications or run parts of larger programs which would normally have to be sent to the IBM mainframe.

Mr Henry said that this development made it possible for company's with IBM mainframes, which use the standard 3270 protocol, to build office automation systems using the Hero workstations.

A complete Hero system with four workstations and a Super 21 comms processor costs from $22,500, and it offers most of the standard IBM protocols besides 3270. European prices are still being worked out.

Mr Henry said that MDS is attempting something of a revival with the Hero range in the IBM compatible market where the company began. More from MDS on 01-874 6404.

● APPLE, the personal computer maker, has also included an IBM 3270 link in the communications package just announced for its new Lisa machine. It also allows the Lisa to emulate Digital Equipment terminals.

● A cheaper version of the Lisa, or LisaTerminal has been launched with cut-down software and graphics features for $2,950 or a fraction of the cost of the original. A cluster controller with either four connecting ports, for $4,500, or seven ports for $7,000 has also been launched.

## TI portable computer

A NEW portable version of its Professional Computer unveiled by Texas Instruments will talk freely with other machines thanks to its communications software.

The TI portabla weighs 33 pounds and will cost from £2,000 when it goes on sale here this spring. It runs MS-DOS software and competes, with the IBM PC. It can hook-up to IBM mainframes, behave like a terminal or form part of an Ethernet local network.

Catalysis

## Coal gas into petrol

A CATALYST which turns coal gas into petrol has been discovered by Union Carbide in America.

The catalyst which uses the technique of molecular sieving is claimed to take synthetic hydrogen monoxide gas produced by modern coal gasifiers and to produce a number of grades of motor fuel.

A great deal of hydrogen monoxide is produced by the process which breaks down coal into its constituent and valuable by-products in the gasifiers, leaving coke and other previously waste products.

Union Carbide is now beginning to study the economic feasibility of its catalyst, discovered as part of a $3m grant into how dangerous wastes such as hydrogen monoxide or coal gas might be further broken down.

Banking

## Exposure control

BANKERS CAN now keep tabs on their liabilities with software called Global Risk Control (GRC) from Financial Information Services, a division of Control Data formed through the merger of its subsidiaries Arbat and Business Information Services.

A bank will need the Series 700 International Banking System, which operates on Digital Equipment VAX and PDP II minicomputers to run the GRC package. It allows an international bank to balance its lendings and comparative positions to keep them within set limits.

Series 700 users are automatically a part of the Control Data communications network. More from Financial Information Services on 01-248 6409.

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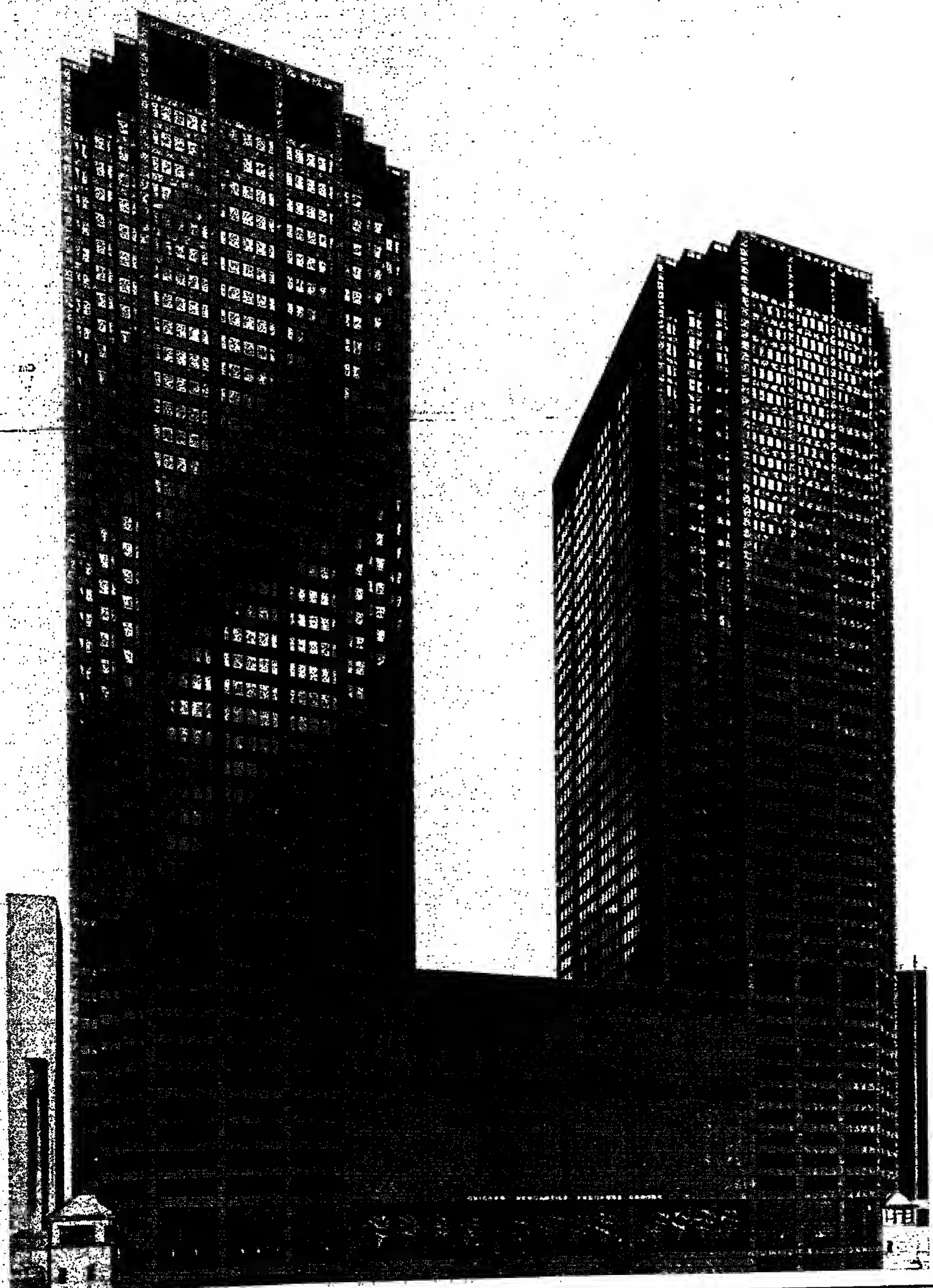

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# THE MANAGEMENT PAGE: Marketing

EDITED BY CHRISTOPHER LORENZ

Peter Hamilton: raising the temperature among his "feudal barons" — Ashley Ashwood

# Why APV is ditching its winning formula

BY CHRISTOPHER LORENZ

A FEW weeks ago, in the course of surveying his new corporate domain, Peter Hamilton paid a flying visit to two of his offshoots in San Francisco. He discovered that they share an important batch of customers in the prime tomato industry of northern California; they supply tomato processors with different, but complementary, types of machine.

Yet the two companies hardly ever talk to each other, let alone bid for the business as a team. "There's no cohesive effort at all," says Hamilton. "If they went in together they could not only cut overheads but also have a much greater impact on the customer."

A no-nonsense, broad-shouldered Briton of 55, with a driving personality and the inexorable confidence of a Harvard MBA, Hamilton will have left the executives of both companies in little doubt about how he expects them to behave in future.

Writ large, such instances are peppered right across Hamilton's sprawling worldwide empire. As the new chief executive of APV, one of the world's leading makers of process equipment for the food, drinks and chemicals industries, he is faced with the daunting and highly sensitive task of injecting some cohesion into his domain without destroying the market flexibility and managerial motivation of its five dozen constituent companies.

Hamilton's decision to centralise many operating decisions, to introduce more systematic reporting systems, and to iron out product and distribution overlaps between the companies, is ruffling more than a few executive feathers.

One manager mutters about the dangers of Parkinson's law, "with head office accountants asking how many matches we bought last month." Another also complains of excessive form-filling, and is worried that Hamilton's textbook attempt to eliminate as much internal competition as possible and create "synergy," could backfire in certain cases, losing APV some valuable business. "Two-plus-two can sometimes equal only two-and-a-bit," the sceptic says. "You can't control your customers when the competition is just waiting to steal from you."

As befits its image as a maker of equipment for dairies, breweries, ice cream and other (more or less) wholesome products, APV is based in the heart of Britain's rural Sussex. But it has developed tentacles — and high market shares — as far afield as the U.S., Canada, Brazil, Australia, the Far East, South Africa and even nearby (but notoriously difficult) France, where it has a particular stronghold in yoghurt-making machinery. Its major worldwide competitor is Sweden's Alfa-Laval, though it also faces a growing challenge from several quarters, including Japan.

Despite its relatively small size—it has a newly-streamlined workforce of just under 10,000 and had sales of £340m in 1982 — APV is thus in the unusual position for a British engineering company of being at the top of the international league.

It owes this achievement to its long-standing strategy, again exceptional in UK engineering, of combining product specialisation with technological innovation (in such items as heat exchangers and homogenisers). It has carried out that strategy partly through internal growth and, especially since 1971, via an almost incessant spate of acquisitions, many of them in products and markets which overlapped with each other or with the existing group.

Yet almost until Hamilton's arrival as joint managing director in 1980, and then his appointment as chief executive a year later, APV was "run as an accumulation of small companies," says Jim Shanahan, an American who for almost 20 years has been the group's top man in the U.S.

Peter Benson, who ran the group throughout the 1960s and 1970s, "grew up with it," says Shanahan. So for him and his finance director, Ken Grover, "it was no problem to look after lots of companies without formal controls and accounting procedures."

APV is rife with stories of how Benson, an unusually perceptive accountant, succeeded in directly controlling his loose association of fiefdoms — for that is what they really were — just by gathering a handful of their statistics, thumbing through them in case anything "looked a bit odd," as Grover puts it, and then shoving the papers into his desk for no-one else to see unless he showed them. Capital investment approvals were often sought, and given, over the phone.

With the help of Benson's long familiarity with the heads of the various companies, and his willingness to spend half the year travelling the world to see them, this "seat of the pants regime," as Grover describes it, prevented things running off the rails.

APV certainly fared pretty well. Sales and profits grew steadily year by year, until earnings dipped in 1981 and 1982 — an altogether remarkable performance compared with *other* British engineering companies, even other specialist technology-leaders such as Baker Perkins.

By 1980 Benson had reached the company's then retirement age of 65 and, over the heads of several insiders, Hamilton had been brought in as heir apparent from the chairmanship of two sectors within GKN, the large British engineering group. The indefatigable Benson has gone on to take over the chairmanship at Davy Corporation, the troubled UK engineering construction company, leaving the chairman's seat at APV to be occupied on a non-executive basis by Sir Ronald McIntosh, the former director-general of the National Economic Development Office.

An engineer turned general manager, like most of APV's top executives, Hamilton not only lacked Benson's financial expertise, but also his long background with the group. So a new structure and more central supervision would have been needed even if Hamilton had not also seen other reasons for revolutionising the way APV handles procedures, products and marketing.

To some extent, the need for systematic procedures had been gradually recognised by Benson himself, especially after the group took on a much larger and broader dimension with the acquisition of Hall-Thermotank, a UK refrigeration equipment company, in 1976. From that time on, budgeting, planning and control systems began to be introduced.

But Hamilton has accelerated the process dramatically, drawing on his experience under GKN's notoriously tough financial controls. To widespread internal criticism that he is taking things too far, for example by demanding that even the small subsidiaries, and those with long order-to-delivery cycles, produce monthly balance sheets, he counters that "It's all pretty mild by GKN standards." Confronted with the comment from several senior executives that they cannot understand how he and his small central staff can find the time to plough through all the paperwork, he retorts "a lot of the information I don't want at all. I just want to be sure that the people down the line have that information and use it properly. Managers need that information to run their business."

Also implicit in Hamilton's introduction of a divisional structure, in which five divisions are each supervised by a chief executive, were the wish to ensure that professionalism runs right down the line, and to create a much broader and more attractive career path for rising executives.

A by-product of the divisionalisation is that it has allowed the original core "APV Company" to be broken into four units within the new food division, putting it on a less superior footing to the rest of the group's subsidiaries. In similar vein, the group's head office has just been moved away to an independent site.

Backed not only by the very detailed budgeting and reporting system, but also by a crystal-clear list of who is allowed to authorise what, the new divisional structure also ensures that operating decisions are taken at a higher level than in the past, or at least that divisional management is closely involved. It should, for instance, help improve the way APV anticipates and deals with the sort of problems (including inadequate demand and productivity levels) from which its large Crepaco subsidiary in the U.S. has been suffering.

This centralisation draws varying reactions from APV's near-50 subsidiaries. Arthur Dennis, head of Paramount, its UK foundry company, says, "I can't spend money the way I used to, but that's not better or worse—just different." On the other hand, he does argue that the procedures need simplifying. "Numerical analysis of performance does worry me," he says.

John Gale, managing director of Spiro-Gills, a small company which makes heat exchangers and distillation plant, is particularly pleased with one aspect of the more open management style that the changes are fostering. He says his divisional chief executive, Leslie Halling, is continually injecting ideas about possible new products, markets and acquisitions. The introduction of this second tier of control below the group's chief executive "makes it less easy for you just to continue in your own little way," he says.

Within the new "industrial division," Gale and Dennis are already benefiting from the other main motive behind Hamilton's restructuring: his wish to accelerate the pace of inter-company harmonisation and collaboration.

Not only have the two men been looking at ways to collaborate in attacking the Saudi Arabian market, but the APV unit which makes waste heat boilers has used the division's regular monthly meetings to persuade other group companies to tender its products when they bid for turnkey contracts, rather than offering boilers from APV's competitors.

This gets to the heart of Hamilton's argument that, in several respects the previous loose structure failed to exploit APV's full potential. First, individual companies still often tender complementary products from competitors, rather than from within the group. Second, some offshoots have been continuing to sell their own product designs when something more advanced was available elsewhere in APV.

On both counts, Jim Shanahan agrees that "there's a lot of technology around in the group that isn't being capitalised upon." The divisional structure, he says, eases the exchange of information, helps set priorities and can establish group-wide product development programmes—a trend which is already under way, and which Hamilton is advancing with the appointment of the group's first product development manager.

As the man responsible for three large APV companies products in the U.S. Shanahan, which offer some competition, strongly supports the current emergence of single group designs for such staple APV equipment as plate heat exchangers and pumps. But he is wary of an over-[illegible] application of Hamilton's dictum that this should be accompanied, wherever possible, by an ironing-out of inter-company competition in the marketplace.

Soon after he took over [illegible] group chief executive, Hamilton initiated a considerable [illegible] towards such rationalisation [illegible] forcing through a group-wide corporate identity scheme. Whether or not they compete in the marketplace, almost all subsidiaries now carry the APV prefix in front of their individual names, and they use the APV logo. One of the few exceptions is the Vent-Axia extractor fan company.

This, and the subsequent ironing-out of overlaps, carries both internal and external risks. "On our own sales people the effect is a bit traumatic," says Shanahan—not surprisingly, since some of them may soon be losing their jobs. One also has to tread carefully out in the marketplace, he warns. "The customer wants to be sure that he has a free choice, and that he's not being dictated to" (by the supplier). He points to the alleged over-centralisation of Alfa-Laval, which has cost it a number of U.S. customers.

"These businesses consist to a very large extent of the enthusiasm and entrepreneurship of the people who work there," warns Shanahan. Only a few months away from retirement (APV's newly-reduced [illegible] age is 62—he adds wryly [illegible] probably seen in the [illegible] as an old stager who's reluctant to change—they're damned right!"

Confronted with such cautionary comments, Peter Hamilton softens his remark that "there's still a great deal to be done" in ironing-out the market overlaps. But only slightly. Just like General Motors, he says, APV will be prepared to offer basically similar products under different company names. But not in many cases. So sales teams may have to merge, as, eventually, he indicates, may some of the companies themselves.

This is strong stuff from someone who is, in effect, trying to transform a bundle of proud fiefdoms into a united kingdom. But Hamilton is totally convinced of the need for cohesion so that his troops can pursue what he calls "the opportunities of the bigger game." As his colleagues must know by now, he's a fighter who doesn't give up easily.


## £3m superstore for Wimpey

Further work has been awarded to GEORGE WIMPEY by Associated Dairies, which has placed a £3.76m contract to build a superstore in Woolwich Road, Greenwich. Work has started on the store which will have a 6527 sq metres area. To be built on piled foundations with pile caps, ground beams and floor slabs, the store will have a steel frame with facing brick and metal cladding and glazed screens to main entrances. It will have flat roofs, some of decking, insulation and felt and others of concrete with lightweight screed and asphalt. Covered walkways and an entrance canopy will have mono-pitch roof protection. In addition the contract calls for a service yard with unloading canopy and screens and a single storey car deck with access ramps and space for over 500 cars. Completion is scheduled for September 1984.

Accommodation for staff of Medway Hospital, Gillingham, is to be built by Wimpey under a £1.1m contract placed by the South East Thames Regional Health Authority. Some 113 bed-sitting rooms will be built for staff, plus a laundrette, managers office and electrical substation and associated external works.

Wimpey has been awarded its fourth refurbishment contract by Kirkcaldy District Council. The latest, due to start early in the new year, involves refurbishment of 76 pre-war houses at Leslie and 42 similar houses at Kinglassie. Valued at just over £800,000, the contract is due for completion by the spring of 1984.

ICL has gained a series of computer contracts worth £1.5m from UK Provident, Salisbury. The contracts include enhancing UK Provident's existing ICL 2988 and 2966 mainframe computers to a Super Dual 2988 configuration which will be linked to an ICL Content Addressable Filestore Information Search Processor (CAFS-ISP). The system will support more than 200 ICL DRS20 Distributed Resource Systems, and CAFS will provide users with instant access to the customer database of over 500,000 policies. The contracts also include the installation of an ICL 2966 mainframe computer at a remote site from the main system to act as a back-up facility. ICL will begin upgrading the system next spring.

CONTRACTS

# £14.5m work for Cartwright

Contracts valued at more than £14.5m have been won by the CARTWRIGHT GROUP. Largest is a multi-million-pound construction project for J. Sainsbury at York, which has been awarded to Cartwright Construction. The new complex will comprise a Sainsburys supermarket and a homebase store as well as providing multi-storey and ground level car parking facilities. The project is due for completion in the autumn of 1984. Sainsburys refuses to reveal the cost. Cartwright Construction has also won a £0.75m contract to build a dye store for Courtaulds and, in the industrial sector, will be constructing a new £0.75m bottling plant for J. E. Mather in Leeds. Cartwright Hayward and Wooster has a £1m housing contract at Cwmbran; a £2m housing project at Bitterne, Southampton for the Downland Housing Society; a £800,000 modernisation scheme at RAF Hullavington and three contracts from Marks and Spencer for alterations and refurbishment projects at its Bath, Horsham and Pucklechurch stores.

Cartwright DMD, the Group's civil engineering wing, is working on a £2m bridge construction project at the Isle of Portland, awarded by the Dorset County Council. The new bridge will link the Isle with the mainland and replace the old steel-frame "Ferrybridge" structure which will be demolished once the new bridge is in service. The company has another contract for bridge construction awarded by Hampshire County Council for a new road bridge at Warsash, near Winchester.

Cartwright Brown is engaged in a £356,000 new homes scheme for Mosscare Housing at Whalley Range, Manchester. The company has also been awarded several commercial contracts valued at £1.5m (total) for new building and refurbishment by Kelloggs, the Manchester Police Constabulary and the GPO at Stockport.

James Carmichael (Contractors), acquired by Cartwright in June, has a £250,000 contract from the Middle East which calls for the manufacture, supply and installation of interior fittings at the Holiday Inn's new Hotel in Bahrain.

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ALLEN-FOX CONSTRUCTION, Wigan, has been awarded design and build contracts comprising the foundry extensions and civil works at Bolton for Beloit Walmsley value £727,000; the sports hall at Warton Aerodrome for British Aerospace value £182,000; and the day centre for the elderly at Hindley for Wigan Metropolitan Borough Council value £178,000; and a loading bay for Plessey Telecommunications.

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BALFOUR BEATTY CONSTRUCTION has been awarded the A61 North Wakefield traffic management scheme contract by West Yorkshire Metropolitan County Council. Worth about £750,000, the 52-week contract is for improvement to dual carriageway standard of a short section of road and the reconstruction/overlaying of over 1 km of existing carriageway. Included is the modification of two existing roundabouts and numerous road junctions, existing services, pedestrian access and traffic control.

## £10m Cyprus dam project

The Cyprus Water Development Department is expected shortly to be given the go-ahead by the World Bank to proceed with work on the Evretou dam.

The £10.1m project includes a 68 metre high rock-fill dam with a central clay core, concrete diaphragm wall cut-off and grout curtain. A 225 metre long 3.6 metre diameter diversion tunnel houses the pipework for irrigation and reservoir draw-down. The overflow works consist of a reinforced concrete weir, chute and flip bucket. The dam is part of the Khrysokhou irrigation project.

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SHEPHARD HILL, in joint venture with George P. Zachariades, is expected to receive the official order soon. This is Shephard Hill's second dam contract in Cyprus. Work on the £5m Dhypotamos commenced some 12 months ago. Cofferdam and diversion works are complete and construction of the embankment will commence next week, some three months ahead of the tender programme.

*

Over £4m worth of overseas work has been won by the international division of RUSH & TOMPKINS. Contracts have been awarded by the Governments of Dominica and the Turks and Caicos Islands for two major civil engineering projects. In Dominica a mixed project costing £3.2m for the construction of 35km of roads will involve earthworks, rock excavation, quarrying, the supply of roadstone and surfacing, and will include a number of bridges and drainage structures. Work has started at Roseau and is due for completion in December 1984. In the Turks and Caicos Islands a £900,000 contract has been won to carry out marine works at the South Dock, Providenciales. The project will involve demolition of existing facilities and carrying out seabed dredging, construction of 500 ft of steel sheet pile wall with concrete capping beam anchored by tie-rods and walings. A new roll on/roll off ramp will be installed and other associated works will include imported fill and sub-base and the erection of bollards and fenders. Work will start mid-December and is due for completion mid-July 1984.

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Contracts worth more than £4.3m have been awarded to WILCON CONSTRUCTION, a division of Wilson (Connolly) Holdings. Largest is Phase 2 of Leamington Spa Building Society's headquarters block in Leamington. Valued at £1.1m this continues from Wilcon's Phase 1 contract and will add a further 33,000 sqft. Completion is scheduled for August. A 25,000 sq ft factory and office development at Westgate, Northampton for Wilson (Connolly) Properties, which together with associated roadworks is worth £473,000, and will be completed in June. Further roadworks costing £92,000 are to be carried out at Interchange Park Newport Pagnell. In a deal with Haslemere Estates Wilcon, is building a £904,000 contract at Harlow. Pre-let to a Scandinavian company, it consists of 42,000 sq ft of warehouse and 9,000 sq ft of offices to be built by April.

Four contracts all in Swindon totalling £1.8m have been won. Two are Housing Association contracts to provide sheltered accommodation for Thamesdown H.A. (£761,00) and WPHT H.A. (£286,00). The remaining two are design and build factory projects for Micom Borer (£196,000) and Shorko Films (£511,000).

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MEARS CONTRACTORS building subsidiary of Edmund Nuttall has been awarded a contract value £250,000 by the City of Liverpool to build an extension and carry out alterations to the gymnasium at Netherley Comprehensive School for completion in April. Awarded by the Congregation of the Poor Sisters of Nazareth a contract value £1m to build a home for the elderly linked to the existing Nazareth House at Birkenhead. Work starts on January 16 with completion in May 1985. A third contract is for an extension to the Everyman Theatre in Cheltenham value £2.1m for the Cheltenham Borough Council.

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WALTER LAWRENCE AND SON started work on the refurbishment of a listed building at 49-60 Borough Road, Southwark, on behalf of Hanover Street George Securities. The £2.3m building contract, to be partially funded by Walter Lawrence, incorporates office accommodation on five floors with a basement. The scheme, which occupies a corner site forming part of a redevelopment programme being carried out by the Borough of Southwark, also incorporates a day centre, together with a tenants' hall, committee room and combined kitchen facilities. The scheme will be completed in January 1985.

# WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

[illegible]

BOARD MEETINGS—

[illegible]

DIVIDEND & INTEREST PAYMENTS—

[illegible]

TOMORROW

[illegible]

WEDNESDAY NOVEMBER 30

[illegible]

THURSDAY DECEMBER 1

COMPANY MEETINGS—

Ghertenull, Institute of Chartered Accountants, Moorgate Place, EC, 11.45

Floyd Oil Participations, Institute of Chartered Accountants, Moorgate Place, EC, 10.45

Mitchell Cotts, Baltic Exchange, 14/20, St Mary Axe, EC, 12.00

Stewart and Wight, 1, Hobart Place, WC, 11.00

BOARD MEETINGS—

Finals:

Dundee and London Inv. Tst.

Grainger Trust

Royal Bank of Scotland

[illegible]

FRIDAY DECEMBER 2

[illegible]

Glossop 1.576p

House of Fraser 2.8p

Kode Intnl 2.8p

Offshore Mining Gtd Fltg Rat eNts 1991 $508.33

Owen Owen 1p

Prestac 1.5p

Raine Inds

Spirax-Sarco Engineering 1.7p

Stewart and Wight 13p

Superdrug Stores 1.4p

Young and Co's Brewery A 2.5p. Do NV 2.5p

SATURDAY DECEMBER 3

DIVIDEND & INTEREST PAYMENTS—

Kwahu 1.25p

APPOINTMENTS

## Reorganisation at Tarmac Roadstone

Mr Charles Novotny, formerly managing director, has been appointed to the board of TARMAC ROADSTONE HOLDINGS—holding company of the Tarmac Group's quarry products division—and the western company's two regional operations are being formed into separate companies to be called Tarmac Roadstone (Western) and Tarmac Roadstone (North-West). Mr Eric Kendall becomes managing director of Tarmac Roadstone (Western), covering the West Midlands, Central and South Wales, and the South-West. He has also been appointed to the board of Tarmac Roadstone—quarry products division company covering operations throughout England and Wales. He joined Tarmac in 1964 and became a regional director of Tarmac Roadstone (Western) two years ago.

*

Mr Ron Calver has been appointed assistant general manager (life—UK) of NORWICH UNION INSURANCE from December 1, with responsibility for the marketing, sales, underwriting and administration of life insurance and pensions in the UK. He succeeds Mr Dennis Bower, who is retiring.

CONTRACTS & TENDERS



COMPANY NOTICES



## This week in Parliament

TODAY

**Commons:** Debate on the Royal Navy on a Motion for the Adjournment.

**Lords:** Oil Taxation Bill, Third Reading. Agricultural Holdings Bill, Committee. Legal Aid regulations—Motions for Approval. Legal Advice and Assistance Regulations—Motions for Approval.

TOMORROW

**Commons:** Debate on Scottish Affairs, on a Government motion.

**Lords:** Inshore Fishing (Scotland) Bill, Second Reading. Tourism (Overseas Promotion) (Scotland) Bill, Second Reading. Housing (Payment for Well Maintained Houses) (Scotland) Order, Motion for Approval. Unstarred Question on the Richmond Fellowship Inquiry on Mental Health and the Community.

**Select Committee:** Joint Committee on Statutory Instruments (Rm 4, 4.15 pm).

**Private Bill Committee:** Ginns and Gutteridge, Leicester (Crematorium) Bill (Rm 5, 10.30 am).

WEDNESDAY

**Commons:** Restrictive Trade Practices (Stock Exchange) Bill, remaining stages. Motions on the Judgments Enforcement (Attachment of Debts) (Northern Ireland) Order. Opposed private business from 7 pm.

**Lords:** Short debate on a motion to call attention to the deplorable state of the nation's housing stock, particularly that of post-war housing, and to measures necessary to deal with the problem. A second short debate on the situation in the Arts. Amusements Machines Bill, Second Reading.

**Select Committee:** Public Accounts: Subject—Trade and Industry department's monitoring of British Technology Group. Witnesses: Sir Brian Hayes, Joint Permanent Secretary, Trade and Industry Department and Mr Colin Barker, chairman, British Technology Group (Room 16, 4.45 pm).

**Private Bill Committee:** Ginns and Gutteridge, Leicester (Crematorium) Bill (Room 5, 10.30 am).

THURSDAY

**Commons:** Debate on EEC budgetary proposals, followed by a debate on the European Community CAP proposals.

**Lords:** British Shipbuilders (Borrowing Powers) Bill Committee.

**Select Committee:** Private Bill Committee: Ginns and Gutteridge, Leicester (Crematorium) Bill (Room 5, 10.30 am).

FRIDAY

**Commons:** Private Members' Bill.

INSURANCE

# Reinsurers face a tough season

BY JOHN MOORE, CITY CORRESPONDENT

REINSURANCE and insurance brokers are in the middle of renewing policies and contracts for their clients for another year with groups throughout the world's insurance community. This could be the toughest reneweal season for some years.

The renewal season generally lasts from autumn to spring in the underwriters' calendar and excites enormous interest throughout the insurance community. It indicates whether the underwriting cycle is moving up—and that rates are improving—or moving down.

Last year, after a downward trend in the reinsurance cycle which had lasted for nearly five years, there were signs that rates were firming, particularly in certain lines of business.

In London the bigger groups were declining to renew numerous reinsurance treaties on the terms that certain brokers had in mind for their clients. At the same time there was some reluctance to handle the more catastrophic types of risks, such as oil and gas industry business.

Even so, although brokers were jokingly complaining that they had for the first time in a long time had to "broke" for a living, there were sufficient reinsurers eager to accept the business at the rates which suited the brokers' clients.

Like the primary, or direct insurance market, the reinsurers have been locked into a weak underwriting cycle for some years. The number of participants in the reinsurance arena has shown a rapid increase. These newcomers are chasing business volume which has not grown at the same rate as the market's capacity or which will allow all the professionals to show an adequate return on their money. Whether they have made an underwriting profit or not has been of relative unimportance to many of the practitioners, for all the participants have been supported by the high rates of interest which they can earn on their money. This has allowed them to produce an ultimate profit on their reinsurance business.

According to Mr John Austin, manager of Mercantile and General, Britain's largest reinsurance group, in a recent address to the Reinsurance Offices Association, the results for reinsurers could worsen.

Referring to the primary insurance market, he said: "The figures are particularly alarming for property and casualty business in the U.S. The attrition of underwriting losses has continued its upward trend and as cash flow reduces we have now reached the point where operating losses are a reality. Results for reinsurers, therefore, are unlikely to show any improvement and in most cases will undoubtedly be relatively much worse."

There are, however, signs that the trends may have changed. In this renewal season there are signs that tighter and improved terms and conditions under reinsurance treaties are being insisted upon by underwriters.

There was a contraction in capacity, Mr Austin said. "We are witnessing major cut-backs and withdrawals of some important primary companies around the world from reciprocal business or specific classes. In addition, many captive insurance companies (insurance groups run by non-insurance concerns) who have written unrelated business are also totally or partially curtailing these activities." He feels that there could be a substantial collapse of retrocession capacity, which will mean that reinsurers will face some difficulty in laying off their own risks with other insurance concerns.

More specifically, Mr Austin says that the proportional fire market—in which premiums and losses are shared between the insurer and reinsurer—has been one of the biggest loss-makers in recent years, with the worst loss ever reported for 1982.

"Although some improvements in terms and conditions were achieved for the 1982 and 1983 renewals, these have had little or no effect on the basic rates of business. The pressures being exerted on renewal negotiations for this form of programme, particularly by the larger professional reinsurers, are certainly tough."

Notices of cancellation issued by reinsurers to insurers who were seeking to lay off their risks with the reinsurers "this year are at record levels, if not across the whole portfolio, and that all treaties will be subject to re-negotiation of terms and conditions."

He added: "I would anticipate by the year end that in most major markets the level of automatic capacity will be considerably curtailed," and that the level of risk that will have to be retained by insurers and reinsurers "after risk excess protection substantially increased . . . a large number of treaties will not be completed."

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# THE ARTS

## Architecture

**Colin Amery**

# Richardson drawings under the hammer

On Wednesday this week the collection of architectural drawings made by the late Sir Albert Richardson come under the hammer at Christie's in London. Sir Albert, also known as "the Professor" died in 1964 after a magnificent career as an architect, professional Georgian, collector and President of the Royal Academy.

He knew more about Georgian architecture than anyone before or since that civilised era, and he knew about it in a very personal and practical way. His own architecture was a development of the classical idea in modern terms. He was not always completely successful—the outward splendours of Bracken House where this article is being written do not always reflect the confusing interior. But he did understand late Georgian architecture completely. He bought drawings by Soane, Robert Mylne, Sir William Chambers, James Wyatt and Samuel Wyatt, Charles Cockerell and Lewis Vulliamy.

He bought other fine drawings and the Quarenghi views and plans of Tsarist palaces would be stars in any collection. Sir Albert did not acquire his drawings as investments, he bought them to use in his office. They are a fine and representative collection of the kinds of architecture he liked and understood and learned about and then developed in his own work.

It is unlikely that such a clear connection between an architect's own designs and the sources for those designs will be seen again in this country. It is significant that these drawings never decorated drawing-room walls but were always kept in Sir Albert's London office. It is a study collection that belongs alongside the drawings of the buildings of Sir Albert Richardson himself. In an ideal world when a sale of this importance comes along the Royal Institute of British Architects, who claim to have the finest collection of architectural drawings in the world, would be avid to retain it as an important archive.

It is not only one man's view of the classical style, it is a crucial source for the future for intelligent architects. What will happen instead is the drawings will be scattered all over the world and while some may be acquired by the handsomely endowed Canadian drawings collection, the unity will be destroyed.

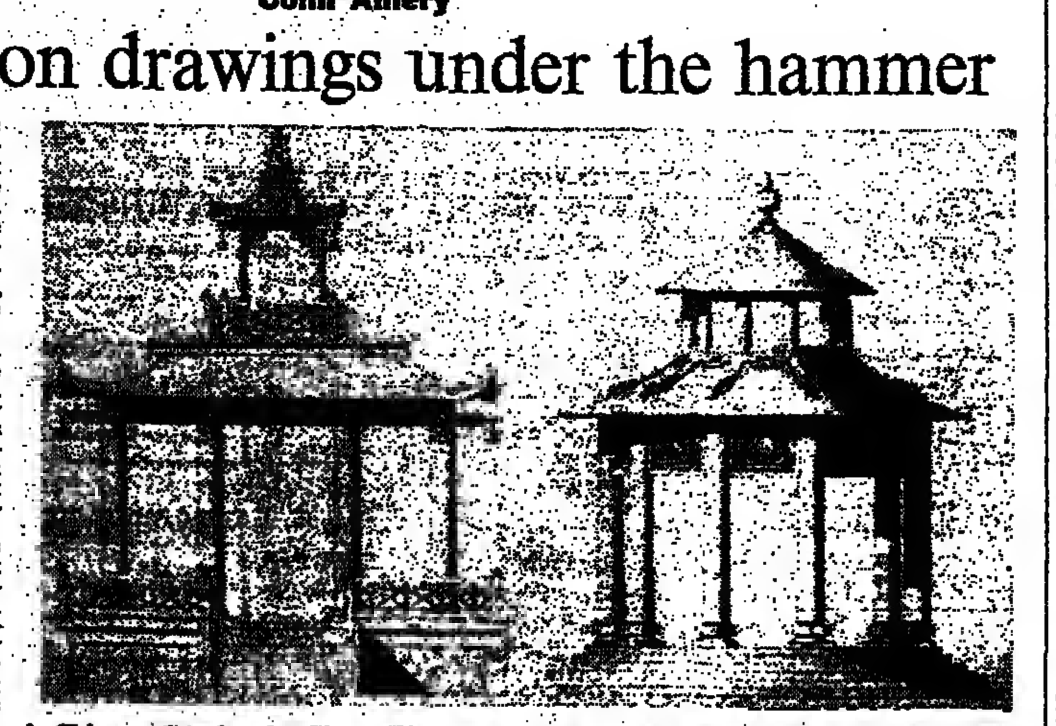
The budget for acquisitions for the Royal Institute's nationally important collection is only £3,000 a year—totally inadequate. It is pitiful the RIBA did not organise a show of these remarkable drawings with some of Sir Albert's own works and then energise themselve to raise the funds to buy the collection. I am not against the buying and selling of architectural drawings in the free market—but the Richardson collection has a relevance to the history of British architecture that will grow as the years go by—it should be kept together.

In the second half of the same day's sale works by Thornhill, Sir Robert Taylor, William Burges, Benjamin Ferrey and James Wyatt are also for auction. These have come from a variety of private collectors and represent, more fairly, the general increase of interest in architectural drawings—of a decorative nature—for collectors who have a taste for them.

London, in the weeks before Christmas offers several attractive opportunities for collectors and those interested in architectural history. *Fischer Fine Art*, at 30 King Street, St James's has a very discerning display.

The particular strength of the Fischer exhibition lies in the selection of 20th century works—there are drawings by Frank Lloyd Wright, an important group by pupils of Wagner and Italian Futurists. English early 20th century architects are well represented with particularly fine perspectives of work by Sir Edwin Lutyens, as well as drawings by Voysey and Clough Williams-Ellis. Some particularly intriguing drawings by Sir William Chambers promise to excite lovers of this pioneer of Chinoiserie. Prices at Fischer Fine Art, a gallery which has a very distinctive eye for architecture and the decorative arts as well as paintings, are likely to range from £250 to over £3,000. The exhibition runs from December 1 to 23.

Away from the centre of London at Hugh Evelyn's gallery in St John's Wood, (53, Charlbert Street, N.W.8. Tuesday-Friday 10 am to 6 pm and Saturday mornings) there is a show described as *Excursions into Architecture.*



A Chinese drawing by Sir William Chambers (1723-1796) on sale at Fischer Fine Art

## "Master Harold" . . . and the boys/Cottesloe

**Michael Coveney**

The Market Theatre Company of Johannesburg is visiting the National Theatre with a riveting production of what Athol Fugard describes as "the most totally and immediately autobiographical" of his works. Hally, the Fugard figure, is a white teenager in school uniform. He visits a tea-room in a Port Elizabeth park on a rainy 1950 afternoon. The tea-room belongs to his parents. The two black waiters are Hally's best friends.

Over the telephone, Hally receives news from his mother that his crippled, alcoholic father is to be allowed home from hospital. Up to this point the play has forcefully, if a little prosaically, charted how Hally's childhood and education was irradiated by Sam the waiter. They discuss which man of magnitude has been of most benefit to all mankind. Rejected contenders include Napoleon, Tolstoy, Jesus Christ, Abraham Lincoln, Plato and Marx. The preferred candidate Alexander Fleming, is an indication of the play's practicality.

Fugard may on occasion be a sentimental writer, but he is never romantic. Sam's intellectual tutoring of Hally is offset against his instruction of the other, older waiter, in the ouances of ballroom dancing. A big competition is about to be held. The dream of universal harmony is best confined to that dance floor.

Like all good autobiographical works of art, *Master Harold* is not just an exercise in reminiscence. It is also a painful exorcism. The friendliness of Hally and the waiters is threatened by the instability of the boy's relationship with his parents, and he lets slip, under pressure, a racist joke he shares with his father. From there it is but a short step to a spit in the eye and a terrifying reflex pulling of racial rank by the boy, transformed in an instant to "Master Harold."

Now, whether or not memories of kite-flying on the hill will restore the special equilibrium that Sam has so lovingly worked for is a question left open. A distinct chill is only slightly warmed by the final image of two black waiters spending their last coin on a juke box recording of Sarah Vaughan.

Sam is played with enchanting dignity by John Kani, a truly wonderful actor last seen on the London stage in *Sizwe Banzi is Dead*. His poise, grace and off-the-ball intelligence are well counter-pointed by the puzzled, acquiescent weightiness of Ramolao Makhene as the older Willy. Fugard's own production is severely wound up in the pleading, desperate and courageously forthright performance of Duart Sylwain as Hally.

An entire segment of South African life is conveyed in the detail of the writing, its reference to people and places we never see except, vividly, in the mind's eye. Douglas Heap's green, grimy and evocative café—the last dance saloon—is an excellent design.

## The Sleeping Prince/Haymarket

**Martin Hoyle**

Not all Chichester's recent offerings on pre-Great War mid-European royalty are quite so durable as *A Patriot for Me*. Terence Rattigan's legation comedy, conceived as a star vehicle for the Oliviers and having served Monroe on film, now transfers to the West End with Omar Sharif at the helm.

It depends, as everyone knows, on the art of the cast as much on the undoubted craft of the playwright. When the two are on form and complementary, as in Judy Campbell's dotty Grand Duchess, real fun results. There is a surreal absurdity to the description of *King Lear* performed in English by minor princelings to uncomprehending German-speaking peasants. Miss Campbell puzzlingly throws away some lines while making others as funny as Lady Bracknell's. Either way she is an original, and her character emerges as the true comic creation of the play.

Rattigan goes half-way to deflating the Ruritanian romance of this fairy-tale by making the *Merry Widow* Balkanisms both sophisticated and silly, as it were the Home Counties. Peter Coe's production underlines this with zigeuner-clad servants tripping in to music and even making the star look faintly ridiculous in ethnic costume, by *Chocolate Soldier* out of *Hary Janos*.

For modern palates the soft-centered message that love can heal family rifts and avert political coups may ring simplistic. Here, too, Rattigan sidesteps by leaving the happy ending in doubt. The American soubrette will probably never get to her morganatic little palace in Carpathia. Her royal love affair remains as euphorically insubstantial as a coronation souvenir—either in 1911, when the action is set, or in 1953, the year of its premiere.

As the musical comedy actress Debbie Arnold is happier when showing spirit, pluck and gumption than when coolngly amorous. She is entertaining by the standards of those not so dumb blondes seen frequently seen in TV commercials; the little girl voice tends to throb on with insufficient variation.

The production's *raison d'être* is Omar Sharif. He displays a bearish humour and carefully thought out comic tricks (he is good at quickly controlled irascibility). If the end result is a little like acting by numbers, his final thaw into love and philanthropy is likeably convincing. And much can be forgiven for the unexpected gap-toothed grin that recalls Terry-Thomas.

Peter Rice's designs are the sort whose sumptuousness evokes a round of applause from a West End audience, while sniffily condemned as vulgar by a character on stage. It confirms my suspicion that Rattigan was a shrewder workman than given credit for, and not above having it all (commercial) ways. The evening will give a great deal of pleasure to Aunt Edna's nieces.

## Dvorak and Janacek/Festival Hall

**Max Loppert**

The pairing of Dvorak's *Te Deum* and Janacek's *Glagolitic Mass* in the same programme had been tried more than once prior to Friday's BBC Symphony concert. But as it is an attractive pairing—both works expressing different kinds of "open-air" faith, the bright, uncomplicated fervour of the former aptly setting off the jagged mystical ecstasies of the latter—there is never any harm in its repetition.

And, indeed, it made here for a most attractive concert, though (perhaps unexpectedly) it was the Dvorak first half (the choral work followed by the beautiful if somewhat looselimbed symphonic poem *The Wild Dove*) that gave cause for greater enthusiasm. Mark Elder's conducting of the composer, as we know especially from his ENO *Rusalka* performances, combines buoyancy of rhythm, naturalness of accent, fresh feeling for instrumental timbre, and genuine but never too insistent warmth of feeling.

At first, it seemed that the huge choir—BBC Symphony Chorus joined by the LPO body—was about to swamp every instrumental accompaniment except the percussive; but soon the balance was adjusted, and the flow and colour of Dvorak's woodland-scented invention proved so appealing that one quite forgot to notice its rather generalised application to the text in question. With mezzo-soprano days now far behind her, Elizabeth Connell was a soprano soloist splendidly clear, ample, and bold of attack, with phrases above the stave that shone fearlessly bright; in those passages where Dvorak places his soprano and bass solos in unison two octaves apart, the blend of her voice and Willard White's noble instrument made a wonderful effect.

In the *Glagolitic Mass* the same forces were joined by Christopher Bowers-Broadbent, who made the Festival Hall "organ" sound unusually fierce and "native"; Kenneth Woollam, very brave and powerful in the hair-raising tenor invocations; and Patricia Payne, alto. The overall impression was of a reading well-studied and well-prepared that resolutely refused to ignite. The lack of reverberance in the hall must explain some of the lack of atmosphere—though Janacek's desire to have this work performed out of doors was obviously impractical, the clinical precision of the Festival Hall sound must be deemed the very opposite of his executive requirements. More than that, though, it seemed that, while Mr Elder's command of individual sections was sure, he had not yet found the key to the dramatic movement of the whole.

## Penthesilea/Gate, Latchmere

**Michael Coveney**

There comes a time when the cramming of heroic drama into shoe box theatres is rendered ridiculous by the circumstances. So it is alas, with Robert Nye's translation of Heinrich von Kleist's *Penthesilea* at the Gate at the Latchmere. This strange and savage play recounts the love match of the Queen of the Amazons with Achilles, a peripheral incident during the Trojan War written at the time of the Napoleonic Wars.

The piece was written in heroic verse, but Mr Nye's approach is jaunty to say the least. A bandaged sidekick of Achilles avers that "the only good Amazon is tit on toast for breakfast." We see Penthesilea and her gypsy harpies subjecting their captives to a bout of anto-erotic torture. And when the conqueror of Hector is confronted by the Queen, herself now a prisoner, she declares that, on first seeing him, she vowed she would either win him or die. She achieves both objectives in a gruesomely bizarre scenario of blood, passion and political and sexual enmity.

Michael Batz's production on a tidily confined setting by Mick Bearwish of trench mats, netting and jungle foliage is on the whole unsatisfactory. There is one really strike home. The switches of location only add to the impression of confusion, as do the swift cast changes. There is solid work at the centre, however, by Susannah York as the blood-curdling, blood-boltered and husky-voiced Amazon, and by Paul Moriarty as her chunkily determined adversary. But the knife fights and the firing of arrows are ludicrously engineered in this little auditorium.

There is some fine atmospheric lighting by Simon Byford and a good sense of mini-ritual among the singing Amazons—Miss York is supported by the the striking trio of Josephine Welcome, Jacqueline Spears and Anni Domingo — as they forlornly celebrate the feast of roses. But the evening is characterised by a sort of earnest doggedness and proves curiously obscure as a statement about either modern warfare or the battle of the sexes.

*

First off the rank in the Christmas show stakes is a delightful version at the Arts Theatre, near Leicester Square, of *Noggin the Nog and the Firecake* by Oliver Postgate and Peter Firmin. The first half of Nicholas Barter's production is dangerously uneventful, but a splendid second half sees the buffonish King Noggin and his court saving the world from catastropha by rescuing the firecake recipe from the grip of his wicked uncle Nogbad the Bad.

The spectacle includes the originel sight of the villain, Nogbad, leading the community singiog with a chorus of crows. George Camiller carries off this tricky task with great aplomb. Nogbad's dangerously dark castle has some splendidly spooky machinery, but all is well thanks to the intervention of the stone kings whom Noggin's son brings to life by decorating them with daisy chains. Ideal for the five to nine year old age bracket, the show plays mornings and matinees right through to January 22.

## NFC appointments

Mr Norman Tebbit, Secretary of State for Trade and Industry, has reappointed Geoffrey Williams as chairman of the Natiooal Film Finance Corporation for a period of one year from November 1. The Secretary of State has also reappointed Barry Norman aod David Puttnam as members of the board of the Corporation for one year from October 1 this year.

## Eschenbach and Frantz

**David Murray**

Much admired as a pianist, Christoph Eschenbach has lately been essaying the role of conductor—like many another of the best middle-generation pianists. Conducting was all he did on Thursday at the Festival Hall with the London Philharmonic; his regular piano-duo partner, Justus Frantz, appeared as soloist in the D minor *Concerto* of Mozart, K 466. Their partnership was happiest, in fact, when partnership was most required.

That was in Mozart's central *Romanze*, where the interplay between piano and orchestral voices was unforced and lovely. The Allegro had begun in mild disorder, with its urgent syncopated throb all but lost; there and elsewhere, I thought Eschenbach gave too little attention to his lower strings. Frantz's contribution was always clean-fingered and carrying, but it was a disappointment to hear the Rondo introduced as if it were bright, weightless chatter.

Eschenbach's performance of Mahler's Symphony No 1 drew cheers from the somewhat meagre house, which testified to its purely musical power. One wouldn't have expected a theatrical reading from a musician whose solo work cultivates introspection so intensively, and one wouldn't have been wrong. Plainly he is thoroughly intimate with the score (he conducted without one). Its formal proportions were excellently judged, its turning-points indentified exactly, its idiom well studied—and the LPO played very well.

What we heard was distinguished for its intelligence and its faithful rigour.

There was room to think, all the same, that an aspect of the First Symphony was being discounted: something extramusical, gross, fervid, overtopping. The music was calculated to be a furious challenge, a century ago, and part of its "symphonic" sense lies in its perpetual threat of bursting out of the mould. Eschenbach's reading was neither tame nor over-decorous—the high points were ringingly struck; but strident or earthy or grotesque passages were smoothly civilised into pure music (in which terms, the Symphony has its unexpired patiens). It was satisfying enough, and creditable; the piece reveals its full strength, however, only in a performance which allows it to sound flamboyant and corrosive too.

## James Mason to take over from Paul Scofield

James Mason is to take over from Paul Scofield a starring role in the new film, *The Shooting Party*. Mr Scofield, 61, was unable to continue in the role of Sir Randolph Nettleby after breaking a leg when a horse-drawn carriage overturned on the first day of shooting at Knebworth, Herts.

Producer Geoffrey Reeve said he was "very sad" that Paul Scofield could no longer play a major role in the film.

## Obituary/Sir Anton Dolin

**Clement Crisp**

The death of Sir Anton Dolin occurred in Paris on Friday. Born in Sussex in 1904 Patrick Healey-Kay acquired his Russian name and his first great successes with the Diaghilev Ballet Russe during the 1920s, his fine technique, his physical allure—and his acrobatic skills—variously celebrated in such ballets as *Le Train Bleu*, *Le Bal*, and as *The Bluebird*. Ever adventurous, Dolin used his many gifts in revue, film, and in a company in which he starred with Vera Nemchinova.

After Diaghilev's death Dolin was an important contributor to the early work of British ballet, creating the role of Satan in Ninette de Valois' *Job* for the Camargo Society, and working with the Vic-Wells Ballet. His partnership with Alicia Markova had begun when both were students with Serafina Astafieva in London; thereafter—with Diaghilev, with the Camargo Society, with the Vic-Wells, and then with the company which bore their joint names—they formed one of the most illustrious of dance partnerships, which continued with American Ballet Theatre, as guest artists throughout the world, and with Festival Ballet which they founded in 1950.

Dolin was the exemplar of the male danseur as partner. All the major roles of the traditional repertory were illuminated by his elegant, selfless support of his ballerina, and by his vivid theatrical personality. During his long career, he partnered and enhanced the appearance of many of the greatest ballerinas, always demonstrating that distinction of bearing and sensitivity that were uniquely his as a cavalier. (His entrance as Florimund in the Vision scene of *The Sleeping Beauty* was unforgettable in its dignity and grace; he strode the stage as he effortlessly was—a prince among dancers.)

In modern roles for a variety of companies, and in other aspects of his career—as actor, producer, author, coach—Dolin combined dramatic bravura with a lively wit. For a decade he directed the fortunes of Festival Ballet with flair, but most recently he had been very shocked by the premature death of John Gilpin, whose stellar career with Festival Ballet he had so generously shaped.

Anton Dolin was a man impulsive, generous, vital. Apart from his many roles that are indelibly impressed on my memory as examples of rare elegance and power in the danseur noble repertory, I treasure a moment when he was in Yugoslavia where an eminent ballerina of the Moscow Imperial Ballet, Alexandra Balashova, had revived *La Fille mal gardée* in the version she danced before the 1917 Revolution, and now appeared as Widow Simone. After the performance Mme Balashova came into a reception in her honour, and Dolin seized an armful of roses and scattered them in her path.

It was a spontaneous expression of his respect for the classic tradition he himself embodied, and a gesture expressive of his warmth of feeling and his sense of occasion. Ballet owes him an incalculable debt.

# Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

**Nov. 25–Dec.1**

## Music

**LONDON**

London Choral Society and Philharmonia Orchestra conducted by Miguel Gomez Martinez with soloists including Linda Esther Gray, soprano. Verdi Requiem. Royal Festival Hall (Mon). (9283191).

Orchestra of St. John's Smith Square conducted by John Lubbock with Igor Oistrakh, violin. Mozart and Haydn. Queen Elizabeth Hall (9283191).

Fires of London conducted by John Carewe with Brian Rayner Cook, baritone and Mary Thomas, soprano. Maxwell Davies, Roger Smalley first performance. Queen Elizabeth Hall (Tue).

London Symphony Orchestra conducted by Claudio Abbado. Pergolesi and Stravinsky. Barbican Hall (Tue). (6388891).

USSR State Symphony Orchestra conducted by Yevgeny Svetlanov with Eliso Virsaladze, piano. Prokofiev, Tchaikovsky and Shostakovich. Royal Festival Hall (Wed).

**PARIS**

Piero Cappuccilli, baritone, accompanied by the Ile De France Orchestre conducted by Jerome Kaltenbach: Leoncavallo, Zaza, Verdi, Giordano (Mon) TMP-Chatelet (2334444).

Hermann Prey with Leonard Hokanson, piano (Mon) Theatre de L'Athenee (7426727).

English Chamber Orchestra conducted by Yehudi Menuhin, Andras Schiff, piano: Mozart, Beethoven (Mon) Salle Pleyel (5638873).

Eugen Indjic recital: Brahms, Beethoven, Mendelssohn, Scriabin, Prokofiev (Mon) Theatre des Champs Elysees (7234777).

Ensemble Orchestral de Paris conducted by Philippe Bender, Andre Navarro cello: Clementi, Boccherini, Respighi (Tue) Salle Gaveau (5632030).

Ensemble Orchestral de Paris: Chamber music: Andre Navarro, cello, Erica Kilcher, piano: Petit, Bach, Faure, Brahms (Wed) Salle Gaveau (5632030).

Jean-Pierre Rampal and trio pasquier: Mozart (Thu) Theatre des Champs Elysees (7234777).

**ZURICH**

Tonhalle: City of Birmingham Symphony Orchestra conducted by Neeme Jaervi with Dmitry Sitkovetsky, violin. Britten, Bruch and Sibelius (Mon). Beaux Arts Trio. Beethoven, Smetana and Schubert (Tue) Tonhalle Orchestra conducted by Christoph Eschenbach. Bach and Webern (Thur).

**HOLLAND**

Concertgebouw, Amsterdam: Concertgebouw Orchestra conducted by Hans Vonk. Webern, Bartok and Tchaikovsky. (Wed and Thur).

**CHICAGO**

Chicago Symphony (Orchestra Hall): Daniel Barenboim conducting, David Schrader organ. Saint-Saens, Wagner (Tue); Erich Leinsdorf conducting, Jessye Norman soprano, Dennis Baily tenor. Mahler, Mozart (Thur). (4358111)

**NEW YORK**

New York Philharmonic (Avery Fisher Hall): Andrew Davis conducting, Cho-Liang Lin violin. Mercure, Sibelius, Nielsen (Tue); Lukas Foss conducting/pianist. Schubert-Webern, Schubert. Lincoln Center (8742424)

(Carnegie Hall): Joseph Kalichstein Piano recital. All Schubert programme (Wed). (2477459)

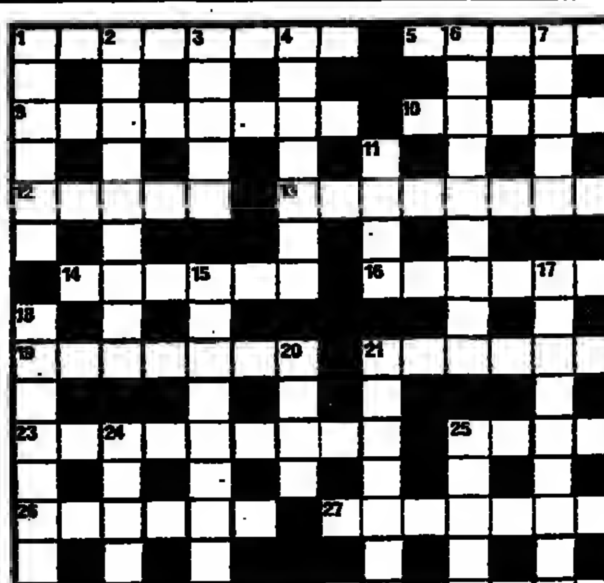
Merkin Hall: Marguerita Oundjian & Ludwig Semerjian, duo piano recital. Haydn, Mozart, Schubert, Debussy, Barkhoudarian (Mon); Music American Chamber Orchestra. Stephen Pomerantz director, Phillip Evans, piano, Ralph Evans violin, Ko Iwasaki cello. Beethoven, Haydn (Tue); Regina Shamvili, piano. Beethoven, Bach, Schumann (Thur). Ralph Votapek, piano. Chopin, Schubert, Schumann, Glinka (Wed mat); William Black, piano. Mendelssohn, Franck, David Diamond (Wed); Martha Ann Verbit, piano. Liszt, Shostakovich, Chopin, Szymanowski, Ravel, Fenimore (Thur). 67th W. of Broadway (3628719)

**WASHINGTON**

Los Angeles Philharmonic (Concert Hall): Andrew Davis conducting. Mozart, Mahler (Mon). Kennedy Center (2543776)

National Symphony (Concert Hall): Rafael Fruhbeck de Burgos conducting. Alicia de Larrocha piano. Schumann, Tchaikovsky (Tue, Thur). Kennedy Center (2543776)

## F.T. CROSSWORD PUZZLE No. 5,279



**ACROSS**

1 Custom legislation included in the cost of goods (8)
5 The buck stops here (6)
9 Woodwork wagon the Northerner put together (8)
10 The way to loop cord (6)
12 Make sure your slip isn't showing (5)
13 Rebelling against authority, gets run in perhaps (9)
14 I'd call round, but not on foot (6)
16 Hardly a full-blooded complaint (7)
19 Involved in a cult that's crazy (7)
21 Itches to change the rules of conduct (6)
23 Germs seen to be spread by a carrier (9)
25 Credit we get from the Greeks (5)
26 Cast from the seat of power, we hear (8)
27 Got into a bed made incorrectly (8)
28 Pictures a mince pie (6)
29 Mad liars maybe, and masters of craft (8)

**DOWN**

1 Indian takes the pledge (6)
2 Disquieting way of seeking reform (9)
3 Experience discrimination (5)
4 A number beaten in the final (7)
6 Results of changes at the farm (9)
7 Lift shafts, we hear (5)
8 Patching battered headgear (8)
11 Like to take one over a continent (4)
15 Engaged in current affairs? (2, 3, 4)
17 Professor on the staff gets first-class return for part of Greece (9)
18 A number claim it is changeable, like the weather (8)
20 They are engaged in making machines work (4)
21 Nero sprawled on his couch in a toga? (7)
22 Remarks players ignore as the team comes in (6)
24 Her calling is a dangerous one (5)
25 Colour uniformly worn (5)

The solution to prize puzzle No. 5,273 will be published with names of winners next Saturday. The solution to puzzle No. 5,278 will appear tomorrow.

## BASE LENDING RATES

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|---|---|
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Monday November 28 1983

# Western aid for Ghana

FOR MORE than a decade the economy of Ghana, once the envy of West Africa, has been a shambles. Per capita incomes and real wages have fallen sharply, inflation has been rampant, export earnings have slumped while cocoa production has halved, the black market has taken over much of the official economy, and the currency has changed hands at barely one-twentieth of its official value.

Partly cause and partly effect, the country has suffered from chronic political instability, from military coups, pervasive corruption, and from a brain drain of many of its most skilled professionals. From once having been the inspiration of the independence movement throughout the African continent, Ghana has become a terrible symbol of the confusion and collapse that can result from political squabbling, economic mismanagement, ill-judged economic policies, and adverse external pressures.

That was the situation Flt Lt Jerry Rawlings chose to face when he seized power in the coup of New Year's Eve, 1981. It has persisted virtually ever since.

The decision by Western aid donors and multilateral institutions in Paris last week to give their backing to a three-year economic recovery programme in Ghana, requiring some $700m in additional aid flows, is therefore an important endorsement of Rawlings' new approach to this daunting task.

Yet it is also a controversial move to support the efforts of a self-styled revolutionary regime, which faces an articulate and determined opposition in exile, and which has had to resist four attempted coups in less than two years in office. It is none the less a necessary and correct decision.

What the economic recovery programme presented in Paris means is that the Ghanaian Government has at last recognised the real scale of its problems, and has embarked on the sort of drastic measures needed to tackle them.

The most important measure taken so far has been the massive devaluation of the cedi, by more than 90 per cent. The move had been passionately resisted as political suicide in Ghana (several previous coups have followed devaluation), but had become unavoidable. At the same time, in a remarkable April austerity budget, petrol prices were doubled, cocoa prices to the farmer raised 65 per cent, the budget deficit cut back, and wages increased by rather less than the rate of inflation.

The aim of the economic recovery programme is to rehabilitate the shattered infrastructure of the country, especially the road and transport network, and to provide essential raw materials and imports to the productive sectors of the economy, with the emphasis on the production of food, industrial raw materials and exports.

### Redistribution

It would be wrong to see the government's policy simply as an ideological shift by a left-wing regime to the right, in order to win desperately needed Western assistance. The Rawlings government remains committed to a substantial redistribution of wealth in Ghana, and to maintaining the system of "workers' defence committees" and "people's defence committees" as a form of distant popular democracy.

But the real revolution that is needed in Ghana, as in so much of Africa, is to change the whole emphasis of development away from the urban areas, and back to agriculture and rural development. That is a difficult challenge for Jerry Rawlings, whose main constituency remains the urban workers and soldiers who brought him back to power. The economic recovery programme is moving in the right direction although it may well require further big changes to pricing to reward the peasant farmers, and penalise urban dwellers, to effect the necessary changes.

The Paris meeting concluded that Ghana had taken "courageous and far-reaching steps" to reverse the years of economic deterioration, and deserved support. A blend of surveillance, advice and support will have to be maintained through what will undoubtedly be a long and painful process of restructuring the Ghanaian economy on a more stable basis.

# Turning point for pensions

THE UK pensions industry is moving extensively into the political spotlight. In the early part of this week the Government is to publish a Green Paper on its plans to legislate for the protection of early leavers' pension rights. And in the New Year a second Green Paper will set out proposals to enforce the disclosure of information to pension scheme members. Legislation on these matters is promised for the next parliamentary session.

Moreover, Mr Norman Fowler, the Social Services Secretary, is setting up a committee to inquire into various broader aspects of pension funds. An initial report is anticipated next spring on the politically controversial subject of the portability of pension rights. Two further reports are to be produced by next autumn, one on the feasibility of a common retirement age for men and women, and the other on the long-term implications of a predicted rise in the proportion of retired people beyond the year 2010.

The occupational pensions industry thus faces a turning point in its development. Over the past 30 years its progress has been spectacular, growing from quite small beginnings to embrace something like 12m employee members and to control investments which are currently in the region of £100bn.

But fundamental flaws in the design of typical pension schemes have become more obvious as they have become more mature and increased their penetration of the working population. Their origins as perks voluntarily provided by companies for loyal employees are still reflected in their structure, even though it is now common for workers in mobile industries to be drawn compulsorily into the net. And although the industry has adapted to inflation by moving from a money purchase to a final salary-linked system, the degree of protection can still be woefully inadequate.

Until now, this vast financial industry has developed largely in the absence of a specific legislative framework. It has been governed by trust law devised for other purposes, and while this has been satisfactory in some respects—notably in safeguarding the solvency of company schemes—there have been serious gaps.

In the past, the attitude of the pensions industry has been that progress should come through voluntary improvements—but now even the National Association of Pension Funds has accepted the basic case for legislation. The Green Papers on early leavers and disclosure will be tangible signs of the new approach.

Besides these technical matters, however, there is an underlying political struggle over the control of funded pension schemes. The left-wing argument is that the collectivised savings which make up the funds should be politically directed into favoured investment channels, which might vary from time to time but would basically concentrate on domestic rather than foreign opportunities, and on manufacturing investment rather than financial or service industry alternatives.

But the more politically influential argument at present is, of course, the right-wing one: that the funds should be decollectivised and put back under the control of individuals so that the financial markets could be freed from the grip of giant institutions and thus, perhaps, revitalised. Such personal pensions would be easily portable, without any job-changing penalty.

### Early leavers

Undoubtedly the most urgent of the several issues facing the pension funds is that of the treatment of early leavers, as the Government has now recognised. But in limiting the statutory protection of deferred pensions to a ceiling of 5 per cent a year, the Government's Green Paper proposal would leave job changers still highly vulnerable to a renewed acceleration of inflation in the future. And in rejecting the occupational pensions board's advice to link the sub-5-per-cent protection to an earnings rather than a price index, it is missing the chance to put stayers and leavers on to a comparable footing.

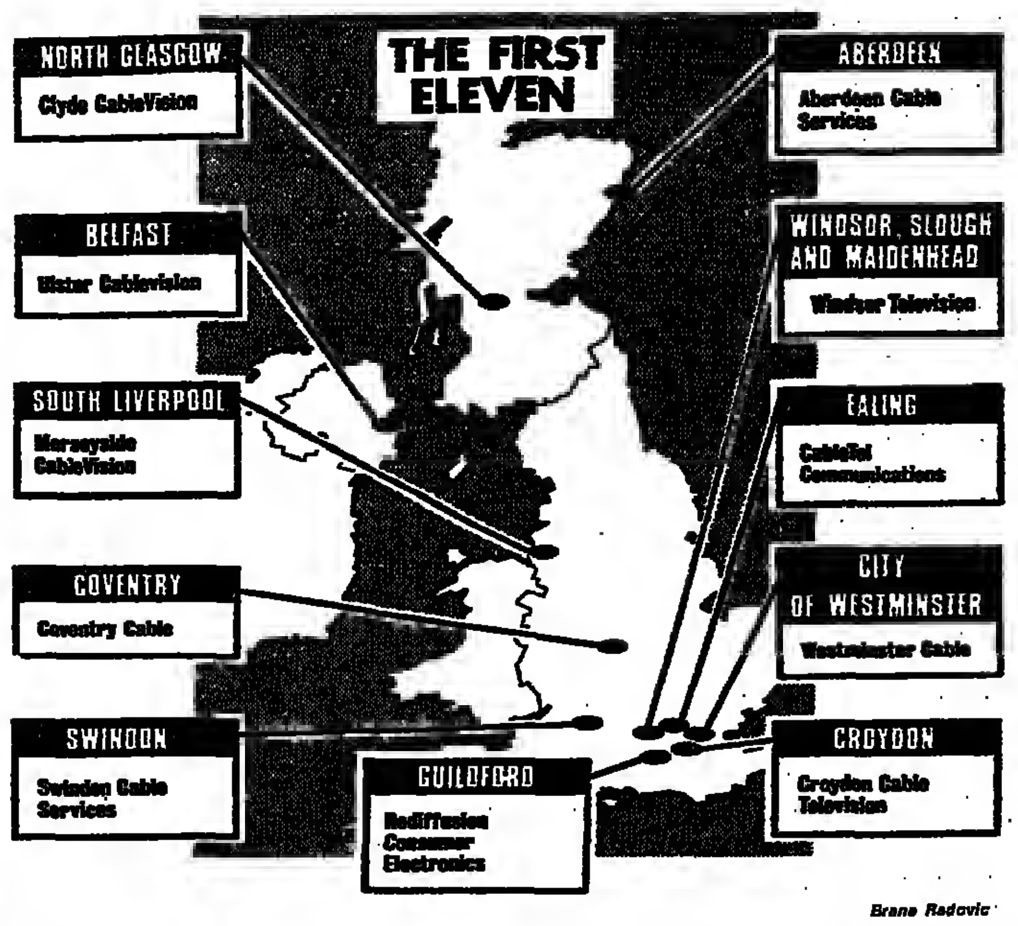
As for portability, it would be wrong to force do-it-yourself pensions upon large sections of the population who lack the financial expertise to provide for their old age with any confidence. But the pensions industry ought certainly to consider whether it should continue to entrap the highly paid and financially sophisticated segment of the workforce within a system which all too often fails to deliver what it appears to promise.

## CABLE TV IN BRITAIN

# The revolution gets going

By Raymond Snoddy

**Britain has entered the cable era with the granting of provisional franchises to 11 consortia. But the new companies may face a long haul before they start making money**




Brane Radovic

BRITAIN'S multi-channel cable television revolutinn is under way. After years of talk and planning, 11 consortia were given conditional permission by the Government on Friday to begin spending real money to bring up to 30 channels of entertainment and interactive services to nearly 1m homes.

The new franchises cover communities of up to 100,000 homes in areas as diverse as Aberdeen, Belfast, Swindon and Windsor.

The "winners" will have to buy sophisticated equipment, much of which is not yet commercially available to show programmes many nf which have not yet been made to sudiences which have to be persuaded to pay much more than they are used to for wider choice on their television screens.

Yet although the Government has taken a decisive step towards the technological future, for most potential consumers a host of questions remain.

**When will the new cable statinns begin their services?**

It will vary from area to area. Thorn-EMI hope to offer an upgrading of their Swindon pay television experiment by Christmas and Rediffusion hope to begin their new service in Guildford towards the end of 1984. For most areas it will be well into 1985 before multi channel cable is operational. The switched star technology, which allows viewers to "call up" the service they prefer and which most plan to use, is unlikely to be available much before next autumn.

Meanwhile, companies such as Rediffusion and Visionhire plan to offer four channels of new programming — sport, music, general entertainment and a premium movie channel—on existing cable networks from the spring, but they have not yet been given the go-ahead.

**What will be available?**

Most operators are planning two or three "tiers" of programming with the consumer able to buy one or all of the services as required.

The basic tier will probably be in the £6-to-£10-a-month range with a premium movie channel probably also costing an extra £8. But companies are all working on various bundles nf programmes with discounts fnr the purchase of additional channels. An overall charge of £15 a month is seen as one key price barrier.

Many interactive services—such as home shopping and banking and burglar alarm systems controlled by the computer at the head end of the cable system — will come in time.

**Where will the programmes come from?**

This is the vital element in the whole equation and perhaps its Achilles heel. If programmes are not interesting enough, or well enough made, the task of selling cable on the doorstep month after month will become impossible. So far the strongest area is in new release films.

Here Thorn EMI is challenging the Television Entertainment Group, a consortium put together by Goldcrest Films, and The Entertainment Network led by Rediffusion, both with strong U.S. partners.

There are also two competing music channels—Thorn's Music Box and the group formed out of a merger between Yorkshire Television's MusicVision and the Virgin group's Cable Music. Screen Sport and CSL are nffering national sports channels and Thorn's proposed children's channel "Jack in the Box" has interested franchise applicants. Rupert Murdoch's Satellite TV is offering a channel of advertising-backed general entertainment.

Several groups are talking about 24-hour national news channels, but plans are not believed to be firm yet. However, many applicants emphasise the importance nf local news.

**Hnw much will it cost the consnrtia and when will they get their money back?**

Plans vary but the total cost nf cabling and setting up a station to 100,000 homes is in the region of £30m but the actual capital the consortia have to raise need not be more than £3m to £5m if the cable network is leased from a group such as British Telecom. In that case leasing charges of around £6-7 a month per subscriber are involved

Many consortia believe they will not see much black ink before 5-7 years.

**How will coble be sold?**

Intense marketing efforts of what is essentially a consumer product are going tn be necessary and salesmen with video recorders and sample tapes may turn up nn the doorstep. The nightmare for operators is how to keep their customers loyal and paying up each month.

**Where has the money come from?**

The main backing has come from the equipment suppliers and equipment builders trying to create an export market for products which will be as advanced as any in existence. BT, for instance, has spent £30m in developing its switched star system and intends to invest £120m in building cable networks and participating in five pilot franchises.

With notable exceptions the City has been cautious, partly because of recent experience with TV-am and partly because of the mixed success of cable in the U.S.

**How did the Government choose?**

The Economist Intelligence unit, and Three Wise Men appointed to make final recommentation to ministers were looking for applicants whn best fulfilled the terms of the White Paper — comprehensive programming plans combined with the most positive contribution to advancing British technology and sound financial structure.

**What will the Government do next?**

Legislation tn set up a Cable Authority which will regulate the cabling nf other larger areas of the UK comes into the House of Lords next month. The Anthnrity will probably be seeking further applications by next autumn and possibly awarding them in the spring of 1985.

**Will it work? Will the British public be persuaded to buy? There are enough answers to fill a multi-channel cable network.**

Mr Bruce Fireman, an analyst at Charterhouse Japhet, the merchant bank, who advised three successful applicants for interim franchises, believes it can, provided the companies are structured to take maximum advantage nf consortium tax relief and capital investment allowances. There must also, he believes, be first class marketing men at high level in cable companies.

Then a 35 per cent take-up could lead to profits substantially above normal investment return.

Mr Patrick Whitten, managing director of CIT Research, which specialises in new media research, takes a more cautious view.

"I think it is going to be a long hard road which is going to take a lot of imagination and a lot of effnrt and there will be casualties along that road," Mr Whitten said.

# Westminster: the dream of a 'wired city'

IF CABLE television is going to succeed anywhere, it will be in Westminster, says Mr Michael Storey. A former management consultant with Booz Allen and Hamilton, he now has the chance tn put his belief to the test. The consortium he put together was nn Friday offered a pilot franchise to cable the City of Westminster.

"We will have several shots at being successful because we will be serving so many unrelated market segments," he says in temporary offices overlooking the Westminster Theatre. Apart from serving the area's 73,000 households, the company also aims to become an entertainment and information source for Westminster's 500,000 workforce and 9m visitors a year.

The company selected Westminster as "a unique environment for an early demonstration to the world of the commercial viability of the most advanced cable system available." The technology is the switched star system which allnws cable users tn dial up the channel they want.

A consortium was put together of companies, who, says Mr Storey, can scarcely afford to fail in such a public showcase. They are British Telecom, merchant bank Kleinwort Benson, Plessey American Television and Communication (a Time Life subsidiary) and an entrepreneurial company set up by Mr Storey, project leader, Mr Brian Dentsch, a financial consultant, and a private investor who does not want to be named.

Construction of the network, using BT telephone ducting tn minimise digging up the roads, will begin in March 1984 in such areas as Little Venice and Regent's Park and the first public service will begin in April or May 1985.

Westminster Cable plans to offer a basic tier of programming for around £7 a month which will include family entertainment, health, hobby and other "life-style" and children's channels.

The basic tier will also include Prestel, a High Street shopping channel, a community channel and an FM radio channel to bring in overseas broadcasts for ethnic minorities.

Super basic channels, which would cost more than the basic but not as much as the premium film channels, would cover such subjects as family finances, music, culture and sport. New films would cost still more.

However, Mr Storey stresses the importance of interactive and business services in his plans though they may only account for less than 10 per cent of revenue in the early years. Entertainment, Westminster Cable believes, will ultimately be no more than the bedrock on which to build a "wired city" of electronic local newspapers, telecomputer software and the services of business information from organisations such as Reuters.

Under a complex financial deal, the company will have to raise around £30m for the exercise—£26m fnr the cable network which will be owned by a separate company and sub-let to BT. The capital of the Westminster Cable Company itself will be between £3m-£4m.

The consortium has been organised so that initial losses can be set off against the profits nf parent groups under the provisions fnr consortium tax relief.

Mr Storey is looking for a basic take-up of around 40 per cent and reckons that a positive cash flow can be expected by 1988. The pay back on equity would probably come in 1991.

# Men & Matters

## Tomato kicks

Guernsey has started exporting wine and the palate-tingling angle to this news is that it is made from tomatoes. They are being grown by the island's long-established glasshouse industry.

Initial shipments to Trade Wines in Gloucester, and to a London firm specialising in unusual wine varieties (Benoit's), are to test the market. But Ron Machon, head of Guernsey Wines is optimistic about his tipple. Professional tasters in England, he says, have already commented favourably upon it.

Machon does admit that tomato wine sounds a bit off-putting—"people imagine that it is a sort of diluted tomatn sauce."

In fact, Aztecato (a name inspired by the South American origin of the tomatn) is perfectly clear and tastes not unlike a Hock. It has an alcoholic strength of 11 per cent. The recipe is secret but Machon says that some grape juice goes intn the blend.

One advantage of making wine from tomatoes grown under glass is that the vintage is not dependent upon the weather.

At present Machon has 70,000 bottles in stock. He hopes to produce up to 250,000 bottles in the coming year.


"Very nice nf British Rail tn sell our names to America—I've heen sent a hus pass fnr Cincinnati, Obio"

## Improving words

A good number of FT readers have been deep in thought since John Moore, Financial Secretary at the Treasury, pleaded for an alternative word to "privatisation" during an FT conference.

While it is too early to award the promised bottle for a brilliant solution to this problem — the competition is still open—I will give you a taste of the standard of entries so far.

Sir Anthony Touche, the banker, offers "flotation." In order to accustom the public to the word he suggests it should be used at first to say, for instance, "British Telecom will be floated on the stock exchange next autumn." After a time, he says, the reference to the stock exchange could be omitted.

Following the same line of thought H. S. MacGregor of the CBI in Scotland suggests "refloating."

There is a strong strand of support for using the term "going public" on the basis that after being removed from government control a business would be publicly owned through individual shareholdings.

But we must not neglect the wilder flights of fancy which include "liberated," "personalization" (we could all have a personal stake), and "wider share ownership" (submitted predictably by the Wider Share Ownership Council).

D. G. Skinner of Osakaya International (Europe) puts up the novel word "tapered." As well as meaning, appropriately, sharpened or fined down he makes the delicious observation that it is "red tape" unscrambled.

## Not for burning

Underlining the mixed feelings in India about historical relationships with the British, a cartoon appeared in Delhi's Hindustan Times on the day the Queen arrived which illustrated the changes in the 35 years since independence.

Three Indian congressmen were shown burning the Union Flag in 1942. In a second drawing they were waving the flag enthusiastically as the Queen arrived for her state visit.

Sir Robert Wade-Gery, the British High Commissioner, says the Queen was thrilled and delighted with the cartoon and the original has been presented to her.

## Called to the bar

Buying more electronics for pubs is going to be a better venture capital investment than trying to sell alcohol to new customers overseas.

That is the view of Douglas Strachan, managing director of Allied Breweries, which has just abandoned a joint biotechnology venture with John Brown, trying to sell packaged alcohol plants to fuel-hungry Third World countries to make "gasohol."

It was based on a continuous brewing process Allied scientists invented. They found they could not control it sufficiently for flavour, so they tried it for fuel instead—only to find that customers baulked at the price.

Strachan staunchly denies that the brewing industry has been slow to innovate. "We're definitely not fuddy-duddy."

He sees a way to better profits now by installing sophisticated pub equipment.

He has 7,500 pubs and claims that Allied is now ahead of anyone in the trade in putting electronics behind the bar. He has bought some NCR electronic cash registers which allow the manager to keep an eye on the takings from the convenience of his own office.

Strachan hints at new electronics for the bar itself—adult toys which will pull in fresh customers without driving away regulars with the cacophony of electronic warfare.

## Amoco's marbles

A toy wholesaler in Stavanger, has helped the U.S. oil company Amoco solve an awkward technical problem with one of its wells nn the Val Hall field in Norway's part of the North Sea.

Mobilising all its trade contacts the firm has produced at short notice 3000 plastic bags nf marbles—300,000 marbles in all.

Amoco poured the marbles down the problem well using them to form a temporary plug between two oil bearing layers. Technicians could then pump sand into cracks, in the upper part of the well. The marbles plug stopped the sand at a place where it was needed.

Later when the well was opened for production the 300,000 marbles simply disintegrated, pulverised by the pressure of the gushing oil.

Amoco says this is the first time that marbles have been used in the North Sea oil fields.

It now has 500,000 more marbles in stock in case another well should need the same treatment—but assures me that it has not cornered the marbles market in Norway.

There are plenty left for Christmas presents.

## Way ahead

Progress of a high-technology investment project through its phases:—1, wild enthusiasm; 2, disillusionment; 3, panic; 4, search for the guilty; 5, punishment of the innocent; 6, reward of the uninvolved.

**Observer**

FRENCH COMPUTER INDUSTRY

# IBM and Mitterrand —an entente cordiale

By David Marsh in Paris

FRANCE HAS quietly ended two decades of painful struggling to follow a go-it-alone computer strategy.

After taking heavy casualties in a long drawn-out guerrilla campaign against the world's most powerful computer manufacturer, France has signalled an armistice with International Business Machines (IBM).

The truce has been conceded as a result of IBM's overwhelming technological firepower, its strong local presence (it boasts four plants and two research centres in France and employs 21,000 people) and its skill in the psychological war of industrial lobbying.

More than most other countries, France has traditionally taken a nationalist and interventionist approach to building up its computer industry while the Socialist Government of M Francois Mitterrand is ideologically antipathetic to multinational big business.

Now, after years of anti-IBM public sector purchasing policies designed to shore up national computer efforts, the Government is allowing state-owned institutions greater freedom of choice. Nationalised banks, for instance, are no longer afraid to declare that they prefer IBM.

President de Gaulle launched the drive for home-grown computers in 1963 after the U.S. exposed French weakness by refusing to deliver a Control Data computer needed for the country's nuclear weapons programme.

This sparked off 20 years of costly government support for the national *Machines Bull* computer company. After a tortuous series of mergers and reorganisations during the 1960s and 1970s, involving *ill-starred flirtations* with General Electric, Siemens and Philips, the company became Cii Honeywell Bull linking up with Honeywell of the U.S. Now, the company has been renamed simply Bull after the state increased its control in last year's nationalisation (although Honeywell keeps a small stake).

Large-scale budgetary aid to boost Bull's inadequate capital is continuing. But guaranteed public sector orders have ended. In a speech earlier this month, President Mitterrand himself called on compnter users to "buy French — but only when the quality is right."

The Government certainly has the capability to maintain control over public sector procurement. Government departments and state-owned companies, after last year's further nationalisations now account for more than half of the country's installed computers, whose value is estimated at over $8bn.

But, as part of a general shift towards pragmatism in electronics development, the Government now realises that rigid "buy-French" procedures can waste money and cut, rather than increase, employment.

## 'The relationship with the Socialists is easier'

Some of IBM's smaller foreign rivals on the French market—ICL and Burroughs, for example—still complain that preferential treatment is given to domestic computer producers.

However, M Hervé Caron, deputy managing director in charge of planning and communications at IBM France, says: "The Socialists seem to be more market-oriented and less protectionist than the previous government. The relationship is easier and less formal than before."

More to tha point, IBM's French subsidiary, in line with the company's bulldozing performance world-wide, is now accelerating its turnover and profits growth.

IBM France's turnover is *more than double Bull's*, and IBM's French net profits last year, at FFr 1.35bn, (£113m) were exactly equivalent to Bull's losses.

*The growing gap has forced* Bull into increased collaboration with foreign computer manufacturers. It has given up trying to make all kinds of computers *and is* concentrating on key products—especially in fast-developing fields such as smaller computers and terminals.

"Bull cannot do everything," admits M Laurent Fabius, the French Industry Minister, who since he took the job in March has taken pains to emphasise his business-minded approach. M Fabius has recently been repeating, almost with reverence, that Bull's turnover is less than IBM's total research budget.

"IBM is very important industrially in France. We have no reason to interrupt its development. We are very satisfied with them," says a top government official in charge of industrial policy.

Backing up the *rapprochement*, M Jean Le Garrec, now in charge of Planning, was a manager at IBM for 26 years before he joined the Socialist Government in 1981.

Commenting on the changing nature of IBM's French ties, an analyst with a rival U.S. data processing group in France says: "Bull is now losing market share to IBM. But the emphasis is now on saving jobs. IBM is a large employer and the Government is asking IBM to carry out more investment."

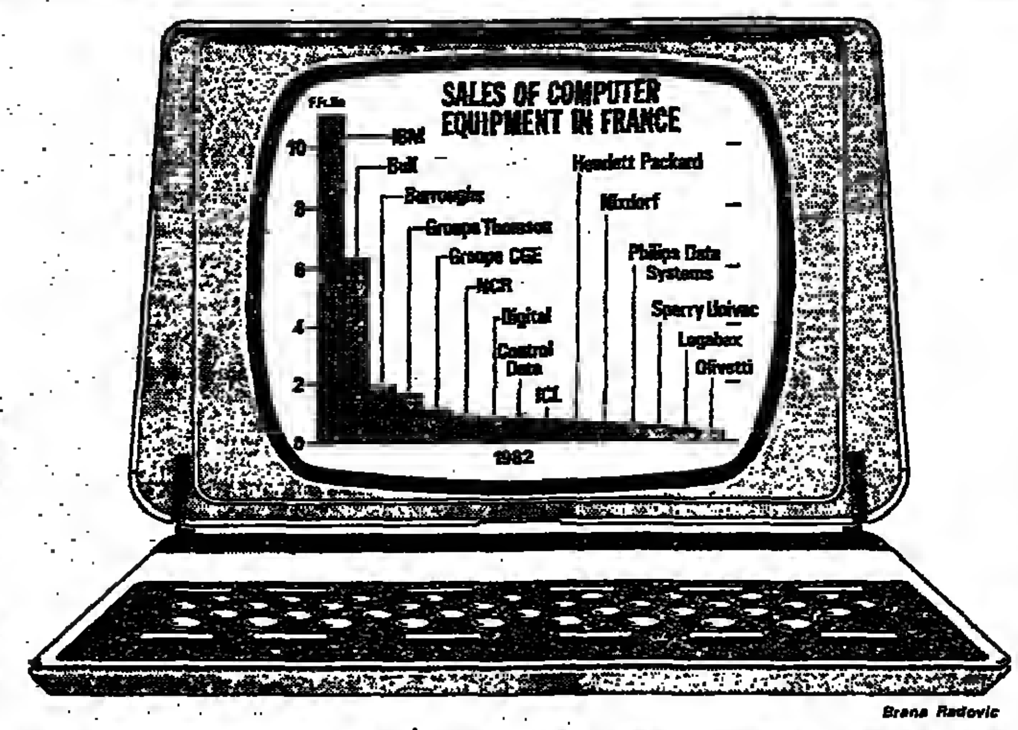
As a *quid pro quo*, IBM is also making tha Government well aware of its long-standing desire to expand into areas which have long been the preserve of purely French companies.

As the possible forerunner to a telecommunications breakthrough, IBM has been given an experimental contract by the *Post* and Telecommunications Ministry for an electronic telephone directory assistance system in the Paris area.

Recent rumours have linked IBM to *possible* collaboration with the nationalised Compagnie Generale d'Electricite electronics concern.

IBM misses no chances to capitalise on the "Frenchness" of its operations in France. Most top management are French, and maintains in Paris its headquarters for Europe, Africa and the Middle East.

IBM ran a large-scale advertising campaign this year to underline its credentials as France's fifth biggest exporter and one of its largest corporate taxpayers. "Thanks to all our clients," ran the blurb, "for having helped us take part in the economic expansion of France."



Brena Radovic

The message is spreading. Société Générale, the third largest French commercial bank, has suffered years of delays in setting up its computer network as a result of a decision in 1974 to buy from Honeywell Bull. It is now reorganising its information systems using a variety of equipment from French and foreign suppliers.

"IBM equipment is largely made in Montpellier (one of the four French plants), says M Louis-Noel Joly, Société Générale's director in charge of electronics development. "If you analyse Bull, which is called a French computer company, some parts of the equipment—sometimes large parts—are not built in France at all. The row over nationality is ridiculous. What is necessary for a country's economy is employment. It is necessary to build the equipment in France."

Public sector computers users like M Joly are now freer to choose their own equipment. *This follows* the expiry of the former government's computer plan (the Plan Calcul) in March 1980 which laid down formal procurement directives favouring Bull.

In spite of these efforts, IBM remains well implanted in the French public sector, which is estimated to account for close to half its overall French business.

The central mainframes of many big banks are IBMs; it supplies the ministerial machines which calculate the monthly trade figures, as well as the number-crunchers at the government statistics institute, Insee.

Key computer users among nationalised industries, such as Aerospatiale and Air France, are also big IBM customers.

Bull, despite its perennial position as No 2 in France, is clearly far stronger than a decade ago. Procurement restrictions, coupled with quick development by Bull and other French manufacturers, have resulted in a significant weakening of IBM's previous near-monopoly position as the Government's main computer supplier.

In 1970 it supplied 55 per cent of the central government's fledgling computer network. Its share now (of a much larger installed base of equipment) is under 20 per cent—while Bull's is over 40 per cent. For public sector companies, over which the Government has exerted less direct control, the IBM share is much larger—just under 40 per cent, compared with Bull's 16 per cent.

An inter-ministerial committee to vet government computer purchases is still in action. Officials say, however, that its role is now more of a catalyst to spur French electronics development than to block outright purchases of foreign equipment.

There are still outbreaks of protectionism. The Banque Nationale de Paris, the largest French commercial bank, suffered the rejection of a major computer programme shortly after the Socialists took office in 1981.

Spurred on by lobbying from the pro-Communist CGT union, the Government forced the bank to change the system to increase Bull's role and reduce IBM's.

The project, involving several hundred million francs of investment over a number of years, was held up for more than 12 months, and will now almost certainly cost more.

IBM's M Caron classifies the BNP case as "an exception." M Joly of Societe Generale—whose attitude towards Bull is well-known—says: "I have not had a single piece of pressure in two years. Officials in the Socialist Government are more pragmatic and ready to listen than those before."

*Similarly*, at Credit Lyonnais, the No 2 French bank—which uses only IBM for its central computers, M Bernard Laffineur, data processing manager, says: "Up to now there have been no conflicts between technical and political pressures."

He explains that Credit Lyonnais is buying increased amounts of equipment from French companies for expanding areas such as micro-computers, terminals and peripherals—and that central computers, where IBM is dominant, now comprise only 20 per cent of the bank's annual computer budget.

The IBM view that the Plan Calcul had a "pernicious effect" is even backed up by a government report. Written earlier this year by a senior civil servant at the Industry Ministry, it attacked preferential computer purchasing policies as "negative" and "ill-adapted to new technologies."

Any return to even a softer form of computer protectionism, says M Caron, "would be counter-productive in a country where there are big information technology gaps to be filled."

## Lombard

# An antidote to pessimism

By Samuel Brittan

THE NEWEST of the major economic models, that of the City University Business School or CUBS, may well receive some overdue publicity as a result of its new autumn Review. This denies the existence of a public expenditure crisis. The authors argue that the much discussed demographic problems — the effects of more retired people on pensions and health expenditure—are unlikely to be important up to the late 1990s.

Whether that really disposes of the matter I am doubtful. The demographic pressures may well not occur until the next century. But the more immediate pressure derive from the factor highlighted in the U.S. by Alice Rivlin, the director of the Congressional Budget Office, and which affects both health and military spending. This is the increasing sophistication of the technology and equipment available to treat patients and to raise the destructive power of the armed forces. These technological aspects, plus the ability of the entrenched spending bureaucracies and their aligned pressure groups to think up new projects, will ensure that no Chancellor is likely to have quite the walkover that CUBS suggests.

Nevertheless any doubtful judgments on public spending are more than offset by a far more important feature of the CUBS report: its attack on the fashionable pessimism about the real economy. The central projection shows a spurt in UK output growth in 1984, not to 3 per cent as forecast by the supposedly optimistic Treasury but to nearly 5 per cent. It also suggests a more than doubling of profitability by 1985-88. Unemployment is expected to fall to 7 per cent or 1½m by the later 1980s.

The CUBS model is novel for taking the view that the "growth and creation of wealth" depend ultimately not on "demand," but "upon producer decisions and profits; and therefore output is fundamentally supply determined."

The CUBS authors believe that although "UK labour markets are highly imperfect they nonetheless function to bring about an eventual balance between the supply and demand for labour via appropriate real wage adjustments."

Thus their precise prediction—a rise in real tax thresholds every year up to 1986 and then a cut from 30 to 25 per cent in the basic tax rate, all combined with negligible or negative public sector borrowing—reflect their honesty in taking their results relatively undoctored from the computer.

Nevertheless the main conclusion, that a large labour surplus will be depressing real wages and pricing people back into work, is to me more plausible than the fashionable gloom about job prospects.

The way in which this pricing into work occurs is through a temporary acceleration of inflation which wage earners already in employment are unable to be offset by higher pay. (Incidentally the main model I derived from the chapter on money and inflation was that the velocity of the narrow money aggregate known as "little Mo" is highly uncertain but liable to fall, and therefore unsuitable as a target.)

Some indirect corroboration is provided interestingly enough by none other than the National Institute. Its November review suggests that despite a near doubling in unemployment "the deficiency of demand for labour was no greater in 1979 than in 1971." Much of the registered rise in the 1970s reflected changes in the proportions of the unemployed who register. If that is so the more recent, still higher levels of unemployment can be more plausibly explained as a disequilibrium which could correct itself rather than as part of an ineradicable upward trend.

Not every aspect of the model is cheerful. The authors do not believe that Britain is starting to close the productivity gap with Japan or the U.S.

If the authors are wrong on productivity but right on employment prospects, then the gloom-mongers will have to find non-economic problems to worry about as the decade progresses.

# Letters to the Editor

## A 14 per cent rise in oil costs in four months

*From Mr J. Wareham*

Sir,—I am not particularly concerned that tha oil companies are "seriously concerned" (November 23) that the spot market price for crude continues to weaken. I am concerned that my oil costs have risen by 14 per cent since the end of July while the spot price has declined by some 10 per cent in both sterling and dollar terms.

This movement is definitely "psychologically destabilising" my cost structure.

Tha oil companies have stated that they have "an across tha barrel" crude content of 80 per cent so that our 14 per cent becomes a 70 per cent increase in disposable revenua per unit sold without taking into account any benefit from spot market prices on marginal production. There the *increment rises to 110 per cent.*

The use of a total purchases formula to determine average costs is all very well but the oil companies must realise it works in reverse to refute the claims that fuel oil prices are determined by the spot market. In consequence, the current price for heavy fuel oil appears to be excessive and the increases obtained to be beyond that necessary to just return to profitability.

The latest information I have received from companies purchasing fuel oil in various parts of Europe indicates a distinct and widening gap against UK purchasers of oil *products.*

Would some oil company please explain:— Why product prices are rising while average oil costs are falling and why UK users appear to be at a continual disadvantage on a like for like basis against other European buyers?

When are they going to rednce prices?

J. E. Wareham.
*24 Broomhurst Avenue*
*Coppice, Oldham, Lancs*

## Discovering asbestos

*From Professor J. Iball*

Sir,—In your issue of November 19 you report that tha Central Electricity Generating Board and a contracting company were fined for contravening the Health and Safety at Work Act in connection with the removal of asbestos lagging from Rugeley B power station. Mr John Henthorn, representing the company, is qnoted as saying that "There was no way in which it conld bave known of the existence in the lagging." This department provides such a service and has done for the last 12 years. Anyone who wishes to know whether asbestos is present in any such material can send a sample addressed to me and we will supply the information, including the type of asbestos present, quickly and for a very modest fee.

(Professor) J. Iball.
Chemistry Department,
University of Dundee,
*Dundee.*

## Swansea needs staff

*From the Chairman,*
*Trade Union Side Office,*
*Driver and Vehicle Licensing Centre.*

Sir,—I refer to Peter Riddell's article of November 10.

The Comptroller and Auditor General's report gives the impression that vehicle excise dnty (VED) revenue is lost because the computer system at the driver and vehicle licensing centre, Swansea, cannot cope. This is nonsense — the computer system can cope with all the work that comes its way. The reason for revenue loss is the shortage of staff at DVLC and in local offices to carry out enforcement work.

Sir Derek Rayner was brought in by Mrs Thatcher to examine efficiency within the Civil Service. Ha looked at VED enforcement and concluded more staff were necessary to increase revenue, and that extra staff would be more than cost-effective. The report merely confirmed what trade unions at DVLC have always argued. We bave continually pressed management and Ministers to provide more staff, without success.

Even on the Comptroller and Anditor General's figures enforcement is cost-effective, bringing in a net £3.7m which *would otherwise* go uncollected. And these figures are misleading, as they overstate the amount paid ont in wages to enforcement staff. This is because enforcement *staff* are expected to deal with counter-work at local vehicle licensing offices whenever there is a staff shortage at the counter, thus *reducing* the *amount of* enforcement work done.

So the reason why many evaders go scot-free is quite simply Government cuts — the Government *wants to reduce* the numbers of civil servants regardless of cost, or loss of revenue.

Many people are using this an an excuse to call for the abolition of VED, and putting tax on petrol. People who call for this fail to consider the many consequences.

VED collection provides a means to check on a vehicle's insurance and roadworthiness. It will still be necessary to check on these regularly, so there would continue to be an annual registration, accompanied by a fee for administration. I would ask anybody who thinks *this is unnecessary* bureaucracy to consider their position if somebody crashed into them who was uninsured or without MOT, and the likely increase in accidents due *to* unroadworthy vehicles.

Additionally, a tax on petrol would hit the rural motorist *hard.* It would also hit the haulage industry, who would need to recover the extra costs by increased prices—hitting all of us and adding to inflation. It would hit bus companies, who would have to put on bus fares —hurting those who can least afford it.

To those who say a tax on petrol is fairer, as peopla pay according to how much they use, I would argue that fairness in tax terms means something *different* — a *fair tax is one* levied on those able to pay, for the benefit of those less fortunate. The person who drives furthest is not necessarily the one most able to pay and may be the least able to bear the additional cost.

Despite all the problems, enforcemant of VED is continually improving. In 1983, we will deal with about 80 per cent of the offence reports we receive. Evaders should not take beart from newspaper reports implying that they can expect to get away with it.

Clive G. Williams.
*Longview Road,*
*Cluse, Swansea.*

## Inverse logic

*From Dr J. Scott*

Sir,—I do wish that in reports (November 16) claiming an apparently obvious connection between suicide and unemployment that the inverse logical argument could be at least mentioned, even if the report then went on to say that such an inverse had been discounted.

Your intelligent readers are left to assume that the researchers involved did not consider the possibility that potential suicides are more lokely to lose (or give up) their jobs than are the rest of society, a consideration I feel is reasonable enough to merit some form of mention.

John C. Scott (Dr),
*99, Fairhaven Avenue,*
*West Mersea,*
*Colchester, Essex.*

## Advertising and the professions

*From the Legal Advisers, Institute of Practioners in Advertising.*

Sir,—Mr Nelson (November 22), displays a common misunderstanding about the role of advertising in saying that it can have no effect on the total market for professional services.

The American experience is that prices for professional services have fallen as a result of increased competition brought about by advertising. *This has* brought with it an increase in the number of clients, as more people have felt that professional help is within their means.

Even if there were little or no change in charges, advertising could still attract a significant number of people who currently believa that professional charges are higher than in fact they are. For example, I know many people who are surprised to learn how little it costs to have a will drawn up by a solicitor.

It is therefore nonsense to dismiss advertising as simply an extra business overhead, since all the indications are that advertising will be likely to increase the volume of work undertaken by the professions.

There are undoubtedly large areas of unmet need in terms of professional services. Advertising will help the professions to meet that need.

Philip J. Circus.
*44, Belgrave Square, SW1.*

## Young Georges less numerous

*From Mr V. Milrath*

Sir,—I am disturbed that private client investors should draw the conclusion, partly from rather misleading media coverage, thet as a result of the removal of Stock Exchange fixed commissions change in any a fundamental change in any personal service they have previously received from their stockbrokers.

Mr Cobbett (November 18) ought to be fully reassured that Old George will be succeeded by Young George, who will take as conscientious an interest in each of his clients. The biggest problem, as I see it, is for the private client investor to find a Young George, because they may not be as numerous as they once were.

Victor Milrath.
*17, Tokenhouse Yard, EC2.*

FINANCIAL TIMES

Monday November 28 1983



Terry Byland on Wall Street

# Dollar depressant for drugs

THE PAST three weeks have brought a reversal of the bullish trend in Wall Street's pharmaceutical stocks, which now stand at substantial discounts to the 12-month peaks established at the time of the third-quarter reporting season.

The weakness of the sector was further exposed last week when it failed to share in the general upturn among industrial stocks which lifted market indices to within reach of their all-time highs.

The spotlight fell on Eli Lilly last week, when the stock fell sharply after a federal court awarded a $6m payment in a case involving Oraflex, its anti-arthritis drug.

Another weak feature has been Smithkline Beckman, which was sold down when several market analysts downgraded the stock after a discouraging meeting with the company left them expecting a flat final quarter to this year.

However, neither Smithkline, some 26 per cent off its 12-month peak, nor Lilly, 10 per cent off, has been suffering alone. Wider factors have been at work undermining investor confidence in the sector. Prime among them is the renewed vigour of the U.S. dollar on world foreign exchange markets.

A strong dollar is always bad news for the pharmaceutical companies, which must sell a substantial proportion of their products in markets outside the U.S. Merck, the sector's star performer as well as its representative in the Dow Jones industrial average, finds nearly half its sales and more than one third of its profits in overseas markets, Schering-Plough, Pfizer and Squibb are in similar predicaments.

But the effects of the dollar's firmness on pharmaceutical stock prices has been particularly unsettling this time round, because it caught the sector just when investors were expecting the very opposite.

Several of the leaders of the sector, including Merck, Bristol-Myers, Squibb, Syntex and American Home, reached new peaks at the beginning of October when it seemed that the dollar might be about to fall back.

But now, with the dollar looking anything but weak, analysts bave been taking a more critical look at prospects for the drug companies, Pfizer, regarded as having the greatest exposure to the dollar, is now 15 per cent below its peak, and Merck and Bristol-Myers hava slipped back by 7 per cent and 8 per cent respectively.

The stocks can conveniently be measured against the Standard and Poor's 500 composite index. Mr Richard Stover of Prudential-Bache believes that the sector may substantially underperform against this index over the next 12 months.

To begin with, he sees the S&P 500 companies bringing in earnings gains of only 13 per cent in 1984, compared with predictions of 25 to 30 per cent being made elsewhere.

But he sees pharmaceuticals as likely to underperform even his own conservative forecasts for the S&P. Now that the dollar has apparently turned strong again, Mr. Stover is downgrading his forecast for the gain in pharmaceutical profits in 1984 from 17 per cent to tbe 12 to 14 per cent range.

But whichever forecast is taken for next year's index, drug company stocks are looking vulnerable, even after the shake-out of the past fortnight.

Against a price earnings ratio of around 11.5 on the S&P 500 for this year, Pfizer is currently trading on a multiple of 15, Merck at 16, Smithkline at 10 and Abbott Laboratories at 17. In view of the general concern regarding the likely effects on profits of an obstinately high value for the dollar, it seems that stock prices could have further to fall.

Analysts are, however, drawing the attention of investors to the relative firmness of the yen. Japan has been marked down as the market offering the best growth opportunities for the U.S. drug groups. Upjohn, Pfizer and Bristol-Myers are already active in Japan.

The market's coolness towards the pharmaceutical sector intensified when Merck disappointed analysts at a meeting in New York. The sector specialists came away with the view that 1984 was likely to be a "transition year" for Merck and a number of profit forecasts for the group were soon downgraded.

Mr Ronald Nordmann, pharmaceuticals watcher for Oppenheimer and Co. sees Merck now earning about $7 a share next year, rather than the $7.20 he was predicting a month ago.

If the dollar refuses to go down there will doubtless be a revaluation of some other sectors too. In that sense, pharmaceutical stock prices may be trying to tell investors something.

GENTLE APPROACH TO CREDITORS WINS DEBT PACKAGE

# How bankers kept Brazil afloat

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

**CARACAS APPOINTS BANK ADVISERS**

Venezuela has appointed First Boston, the U.S. investment bank, to advise on its plans to reschedule about $18.4bn in foreign debt falling due this year. Two of the bank's executives, Mr Pedro Pablo Kuczynski and Mr Horacio Millberg, are to accompany Venezuelan officials on an international roadshow starting today in Toronto to explain the country's outlook. British banks have been invited to meet Venezuelan officials, Sr Herman Oyazarbal, a Finance Ministry adviser, and Sr Umberto Penalosa, director of planning at Petroven, the state oil company, in London on December 15.

WHEN Mr Jacques de Larociere, managing director of the International Monetary Fund, told leading bankers in Washington two months ago Brazil would need another $6.5bn in commercial credits to set its economy back on the rails, few of them believed they were facing anything other than a gargantuan task.

Yet by last Tuesday – when the IMF finally set its seal of approval on Brazil's new programme – more than 90 per cent of the funds were already committed. And there had been none of the conspicuous arm-twisting by central banks and governments that accompanied such operations in the past.

This is all the more remarkable since, from the outset, the odds seemed stacked against Brazil in a crucial test of the readiness of banks to summon yet more support for the debt-ridden countries of Latin America.

The facts speak for themselves: it was seeking the largest international credit ever assembled for a single sovereign borrower. it was the first country to come back for a second helping from the banks in less than a year, and the deal had to be assembled in half the time it took to raise a $4.4bn loan from banks last winter.

As if this was not enough, syndication of the credit took place against a backdrop of political tension in Brazil itself. Amid growing demands for a moratorium on the country's $90bn foreign debt the Congress refused to sanction plans to cut wage increases to only 80 per cent of the country's triple digit inflation rate.

The IMF was thought unlikely to approve Brazil's austerity programme without the new wage law. This would have forced the country into default – and smaller banks were not inclined to throw good money after bad, especially after the failure of a first attempt to rescue Brazil in May.

The 14-bank advisory committee, chaired by Mr William Rbodes of Citibank, decided on a new approach. No longer were the creditor banks to be subject to aloofness, brutal arm-twisting and cajoling. Instead, it was felt, they would be more responsive to a combination of flattery, attention to their problems and rational argument.

One central banker this week described it as a "collegiate approach." Mr Rhodes and the other key figures on his committee, Mr Guy Huntrods of Lloyds Bank and Mr Leighton Coleman of Morgan Guaranty, began to cultivate all the interested parties.

New lines of communication were opened up with the IMF, with governments and with the central banks whose influence could make or break a deal. More important still, they decided to go out and meet the creditor banks in person.

On a whistle-stop tour which started on October 10 in Toronto, they took in banks in Honolulu – where the American Bankers' Association was meeting – Tokyo, Bahrain, London and Zurich. With them on the platform were Mr William Dale, deputy managing director of the IMF and Mr Affonso Pastore, the newly appointed central bank governor of Brazil.

It was a gruelling trip "We arrived in Bahrain at four in the morning and left at midnight," said an exhausted Mr Huntrods. But it paid off. Within 10 days the committee had made personal cootact with ore than half Brazil's 830 creditor banks.

It was a testament to the seriousness of the new approach, argues Mr Huntrods, that Mr Dale was prepared to forsake the IMF and devote nearly two weeks exclusively to explaining Brazil's programme to all these banks.

Other bankers were agreeably surprised to find Sr Pastore more accommodating and less abrasive than his predecessor, Sr Carlos Langoni, but what may have tipped the balance was the way in which leading central bankers were prepared to identify themselves with the new Brazilian loan.

"After some initial hesitation," says one banker close to the loan negotiations. Mr Paul Volcker, chairman of the U.S. Federal Reserve, agreed to speak from the platform in Honolulu to urge hanks to support the loan. In Londoo Mr Anthony Loehnis, an executive director of the Bank of England, spoke forcibly in its favour.

The crowning glory came in Zurich, which was regarded by the advisory committee as crucial because Switzerland's ceotral bank president, Dr Fritz Leutwiler, had spoken out against Brazil's previous rescue package. There Dr Markus Lusser, a general manager of the National Bank, told the assembled audience be hoped they would regard it as in their own commercial interest to support the loan.

By the end of the trip it was already clear that a mood of subdued resignation was pervading the banking community. Smaller banks, which might otherwise have tried to walk away, were prepared to support the loan because they had been made to understand that there was no real alternative.

Nonetheless replies were slow to come in. It was only after a new wage law was passed by the Brazilian Congress on November 9 that they began to flow in thick and fast. On the night of November 10 telex machines at Morgan Guaranty in New York, which was collecting the replies, are said to have been jammed with commitments.

And they were no longer coming just from large banks. "We even had one bank send in $19,000," said one banker. "It's not even enough to buy a Rolls Royce, but it shows they were all pulling together."

Mr Rhodes believes that new, open lines of communications between Brazil and all its bank creditors have been the major factor helping the loan along its way.

In Europe, however, it has still been hard to overcome the charge that this was an exercise designed to bail out U.S. banks just as much as Brazil. Without it Brazil would have had no hope of eliminating arrears on debt service, totalling about $3hn by the end of the year, and this would have hurt U.S. bank profits.

For many European bankers the loan's success is the product of a curious combination of dread and bope. While the loan was in the works, acute crisis was never far away. Not only was Brazil on the brink of insolvency, but Argentina was passing through its election upheaval and another large debtor, the Philippines, sought 90 days relief from principal repayments as a prelude to rescheduling its $25bn foreign debt.

Nothing could have reminded bankers more forcefully of their fragile situation. But with the passage of a new wage law in Brazil and Congress approval of an increased U.S. share in the IMF, they could also see some light at the end of the tunnel – if only they could keep the system going a little longer.

# Patronat set to battle French Government over price controls

BY DAVID MARSH IN PARIS

THE FRENCH Government and the Patronat, the country's employers' federation, look set to clash in a new battle over plans to hold down industrial prices next year. This follows the Government's announcement that it is maintaining price controls on the corporate sector for 1984, with the overall intention of keeping down price rises within the general range of 4 to 4½ per cent.

The Patronat has issued a challenge by refusing to negotiate price restraint agreements with the Government as it did in 1982 and 1983. M Guy Brana, Patronat vice-president and head of its economic commission, said yesterday that the federation was refusing to accept controls because they were "harmful" to companies' finances.

This leaves the Government with the choice of taking a more conciliatory line on price controls – which apply to about two thirds of the industrial sector – or of imposing them by decree.

The renewed tension between the Government and the Patronat is the latest symptom of a series of running fights over economic policy. It comes at a time when trade unions also are becoming increasingly restive about cuts in living standards this year and plans for cootinued wage restraint next year.

The basic problem concerns this year's overshooting of the Government's 8 per cent inflation target. Prices are likely to rise by at least 9 per cent, undermining the basis on wbicb price and wage restraint agreements were signed for this year.

The Government consequently faces difficulty in winning acceptance of even tighter targests to try to bring inflation down to its ambitious goal of 5 per cent by the end of 1984.

The Finance Ministry is making clear that it wants to negotiate individual price restraint accords with industry federations on a flexible case-by-case basis which takes account, as far as possible, of external factors like the rise in the dollar and higber raw material prices.

However, there is no douht that it wants to impose an overall tightening after price rise guidelines this year in the region of 7 to 7½ per cent. The Patronat is complaining that price controls further depress companies' battered profit margins.

Government officials retort that the corporate sector has greatly benefited this year from state efforts to hreak indexation of wages and prices.

# British newspapers hit by dispute

Continued from Page 1

chapel fathers (shop stewards) who are co-ordinating the dispute. They believe the competitive pressures set up hy the partial publication of the newspapers will force the NPA "hawks" to back down.

The employment policy and organisation committee of the Trades Union Congress will meet this afternoon in emergency session to thrash out the TUC's position – with a clear division of view among its members on whether its response should be militant or cautious.

The NGA leadership made no comment on the dispute yesterday, though national officials met at its Bedford headquarters. Mr George Jerrom, an NGA national officer, said beavy picketing would continue at the Stockport Messenger plant in Warrington this week.

The NGA's national council will meet tomorrow to consider its next moves. It will be faced both with the demand from the NPA for normal working, and a request from Sir John Donaldson, the Master of the Rolls, for an undertaking to pay the £175,000 fines and legal costs imposed by the High Court in the past two weeks.

The union's appeal against the fines is likely to be heard by the Appela Court on Wednesday. Sir John ordered sequestrators to seize £175,000 worth of union assets, but the union is to be permitted to use its funds for "everyday activity."

The TUC's position has become acutely embarrassing. Centre and right-wing leaders will argue today that the TUC's support should limited to attempting to deal with the industrial issue of six sacked NGA members in Stockport, but that it must dissociate itself from violence and breaches of the law.

Left-wingers – including Mr Moss Evans, the transport workers' leader, whose executive begins its week-long meeting today Monday – will argue for full-blooded support. Many left-wingers believe the Government is in a weak position to withstand an all-out attack by the TUC – though they also harbour some doubts about their ability to deliver what would amount to a general strike.

At stake is the continuation of the TUC-Government talks on the Trade Union Bill – with the implicit threat that the Government will enact further legislation unless the TUC can control this dispute.

# Andropov and Craxi clash

Continued from Page 1

There was no indication of exactly when the missile consignment arrived, nor were there reports of protests hy the small number of demonstrators who have been near Sigonella recently.

Meanwhile in West Germany, parts for the assemhly of the first hattery of Nato Pershing 2 missiles have been delivered to Mutlangen, the U.S. army base at Schwäbisch Gmünd, east of Stuttgart, where they are expected to become operational at the end of this year.

France and West Germany have jointly appealed to the Soviet Union to resume negotiations, interrupted by Moscow's walk-out from the Geneva Intermediate Nuclear Force talks last week.

But both President François Mitterrand of France and Chancellor Helmut Kohl of West Germany made it clear after the latest regular round of consultations between the two countries in Bonn last Friday that they would not be rushed into any reaction to the move by the Soviet Union until they bad fully evaluated it.

© Wu Xuequian, the Chinese Foreign Minister, has said that China is seeking a drastic reduction in SS20 missiles deployed in the Soviet Far East as a precondition for normalising Sino-Soviet ties, agencies report from Tokyo.

Wu made the remark during a meeting with Mr Shintaro Abe, Japanese Foreign Minister.

# Commonwealth backing for nuclear summit plan

Continued from Page 1

Mr Geoffrey Pearson, a former Canadian Ambassador to Moscow, has been assigned by Mr Trudeau to speak to the Soviet authorities about this proposal.

The declaration also incorporates the proposal hy Mrs Margaret Thatcher, the British Prime Minister, for an urgent study to be made of how the security of small states can be ensured.

However, there is no specific mention of Grenada in the declaration. This prohlem will be dealt with in the final communiqué, though not in the strong terms that the African countries wanted.

It is understood that, given the refusal of the East Caribbean states to accept any condemnation of the U.S. for its military intervention in Grenada, the wording of the communiqé will skirt around the issue.

The Commonwealth leaders also set up a high-level group on Cyprus, made up of Australia, India, Nigeria, Zambia and Guyana, whicb bas been mandated to work in close association with the United Nations to try to resolve the prohlem of the Turkish-Cypriot independence declaration.

The heads of Government endorsed the UN resolution calling for the abrogation of the unilateral declaration of independence.

## World Weather

| | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ajaccio | R | 18 | 64 | Dubrovnik | R | 12 | 54 | Malaga | S | 24 | 75 | Salzburg | R | 9 | 48 |
| Akrotiri | S | 21 | 70 | Faro | S | 20 | 68 | Malta | F | 19 | 66 | Seoul | S | 6 | 43 |
| Algiers | — | — | — | Florence | C | 17 | 63 | Manila | S | 32 | 90 | Singapore | R | 27 | 81 |
| Amsterdam | R | 10 | 50 | Frankfurt | C | 12 | 54 | Miami | C | 26 | 79 | Stockholm | F | -1 | 30 |
| Athens | S | 17 | 63 | Funchal | F | 20 | 68 | Milan | D | 3 | 37 | Strasbourg | C | 13 | 55 |
| Bahrain | S | 18 | 64 | Geneva | F | 11 | 52 | Moscow | C | 2 | 36 | Sydney | R | 19 | 66 |
| Bangkok | S | 18 | 65 | Gibraltar | C | 20 | 68 | Munich | F | 11 | 52 | Taipei | — | — | — |
| Barcelona | F | 21 | 70 | Guernsey | C | 11 | 52 | Nairobi | C | 20 | 68 | Tangier | F | 20 | 68 |
| Beirut | F | 16 | 61 | Helsinki | S | -7 | 19 | Naples | — | — | — | Tehran | — | — | — |
| Belgrade | C | 16 | 61 | H. Kong | F | 19 | 66 | New Delhi | S | 26 | 79 | Tel Aviv | F | 22 | 72 |
| Berlin | C | 14 | 57 | Innsbruck | R | 7 | 45 | New York | S | 15 | 59 | Tenerife | S | 26 | 79 |
| Biarritz | C | 14 | 57 | Inverness | R | 9 | 48 | Nice | C | 21 | 70 | Tokyo | S | 11 | 52 |
| Blackpool | C | 9 | 48 | Istanbul | — | — | — | Oporto | S | 17 | 63 | Toronto | — | — | — |
| Bordeaux | F | 14 | 57 | Jersey | — | — | — | Oslo | C | -2 | 28 | Tunis | F | 20 | 68 |
| Brussels | R | 9 | 48 | Jo'burg | S | 27 | 81 | Paris | R | 10 | 50 | Valencia | S | 18 | 64 |
| Budapest | F | 8 | 46 | Las Palmas | — | — | — | Prague | R | 12 | 54 | Venice | C | 3 | 37 |
| B. Aires | C | 23 | 73 | Lima | F | 23 | 73 | Reykjavik | R | -4 | 25 | Vienna | R | 11 | 52 |
| Cairo | S | 13 | 55 | Lisbon | F | 18 | 64 | Rio de J'o | — | — | — | Warsaw | R | 5 | 41 |
| Cape Town | S | 26 | 79 | Locarno | R | 5 | 41 | Rome | F | 19 | 66 | Zurich | C | 11 | 52 |
| Caracas | S | 29 | 84 | London | R | 11 | 52 | | | | | | | | |
| Casablanca | — | — | — | Los Angeles | S | 18 | 65 | | | | | | | | |
| Copenhagen | R | 6 | 43 | Luxembourg | R | 8 | 46 | | | | | | | | |
| Corfu | — | — | — | Madrid | C | 15 | 59 | | | | | | | | |
| Dublin | R | 10 | 50 | Majorca | S | 22 | 72 | | | | | | | | |

Readings at mid-day yesterday:

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

# From Reuters in El Dorado

The flotation of Reuters is turning out to be a nightmare for everyone involved. To start planning the sale of a company to the public when its existing ownership is a matter of dispute is hardly auspicious, and while agreement appears now to bave been reached on the division of the cake, formidable obstacles remain.

The company's numerous shareholders – principally Britains's national and provincial newspaper – bave yet to reach a consensus on the proportion of equity to be sold and on the method of sale. Above all, a corporate structure has still to be arranged which satisfies both the requirements of the Reuters Trust and the demands of institutional shareholders.

Time is no longer on Reuters' side. Far and away the most appropriate moment to sell the company would be shortly after the 1983 preliminary statement in April. The company would certainly not want to wait until the autumn when it would be competing with the flotation of British Telecom.

## Investment

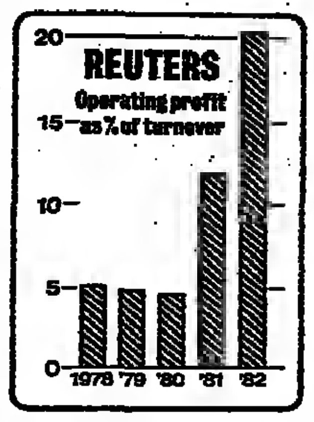
A glance at the performance of the Financial-Times-Actuaries newspapers and publishing group, up 72 per cent over the past year, shows why the existing Reuters shareholders are so anxious to unlock their investment. Reuters is commonly valued in the market at between £1hn and £1½bn.

To accord a specialist company with net funds employed of £60m – and those mostly wires and television sets – roughly the same market value as Barclays Bank looks, on the face of it, absurd. Some valuations have almost certainly been too optimistic and the very fact that Reed International has chosen to float Mirror Group Newspapers (prime asset 7.8 per cent of Reuters) before the bonanza must be significant.

It is impossible to quibble with the recent record. The world's oldest international news agency has been galloping along like a two-year-old on London's unlisted securities market. Pre-tax profits, around £4m in 1980, could hit £60m this year.

The success is due entirely to Reuters' development of electronic information services for financial markets. The question for the future is whether Reuters will be able to generate new markets and products, while keeping at bay the competition.

To date, Reuters has been operating in price-insensitive markets in which its margin is determined principally hy the strength of competition. It seems a reasonable guess, that margins are substantially lower in, for instance, the foreign exchange market – where it is up against Telerate – than in the oil market, where it enjoys a virtual monopoly. With hardware costs declining in real terms, Reuters' return on capital employed, which will probably be not far short of 100 per cent this year, is bound to invite more competition.




Yet Reuters' strongly established presence, coupled with a splendid brand-name and a world-wide news network, is bound to give it an edge. Even in those markets which it will be entering very late – notably U.S. government securities – it should achieve margins good enough to make most industrial companies blanch.

And, although the entry costs to Reuters' business are not high in relation to the potential earnings, the industry is already littered with failures. Time, the U.S. publishing group, announced last week that it was withdrawing from Teletext, an electronic news service aimed at the mass market.

Increasingly, however, Reuters may find that it needs to accept lower margins in order to extend its core services, money markets and foreign exchange, to more price-sensitive clients. Its existing monopolies are likely to come under attack, while new products will be introduced on slimmer margins. The data base service which the company is now developing cannot hope to enjoy such high margins as the real-time information products.

The company's assets have very short lives, so the depreciation and research and development charges are both very high – last year they together amounted to 37 per cent of trading profit. Any reduction in the trading margin would therefore have a geared effect on operating profits. Nonetheless, while the rate of growth is bound to slow, there is probably enough potential in the business to justify a price-tag of £1hn, particularly bearing in mind the ratings accorded to its competitors. Reuters pays very little tax and a £1bn capitalisation would probably be equivalent to around 10 times 1985 actual tax earnings, with earnings growth of around 15 per cent annually likely thereafter.

It is, however, open to doubt whether the newspapers should be selling Reuters, even for such a pot of gold. Capital gains tax will be payable and, if the existing shareholding structure is deemed strictly to be a trust, perhaps capital transfer tax as well.

Moreover, Reuters has no obvious need of outside capital. Last year, it generated sufficient cash to finance a 60 per cent rise in capital spending, pay a dividend and wipe out its borrowings of £7.5m.

## Trust agreement

Breaking up the trust is fraught with difficulty, not least because the agreement of 1953 states specifically that the owners should regard their holdings "as in the nature of a trust rather than as an investment." To float the company would clearly be in breacb of the spirit, if not the letter, of the trust.

The key problem is to protect the objectives of the trust – principally editorial integrity and independence – while satisfying institutional investors. The issue of a golden share, à la Britoil, might protect Reuters from a foreign takeover but this is hardly the issue. Competition policy should in any case be sufficient to achieve that objective.

More serious is the danger that Reuters would, under pressure from outside shareholders, slim down its general news service which is, at the best of times, unprofitable. This problem could be avoided only by the sale of a minority of the shares – followed by an effective freeze of the trustee holdings – or by the issue of different classes of security with distinct voting rights. The separation of financial services from general news would be neither practicable nor desirable.

Restrictive voting would certainly be unacceptable to many institutions which, understandably, would be alarmed at the prospect of investing in management over which they had little control and which had an effectve obligation to run parts of the company on an uncommerical basis. The structure would probably in New York, which must appear a very attractive centre for a listing.

At best, therefore, Reuters would be issuing shares at discount to their optimal value. At worst shareholders would be neglecting their responsibilities as trustees.



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SECTION II - COMPANIES AND MARKETS
FINANCIAL TIMES
Monday November 28 1983



INTERNATIONAL BONDS

# Profit taking limits gains

BY MARY ANN SIEGHART IN LONDON

THE EURODOLLAR bond market had the semblance of First World War trench warfare last week. "If you put your head up too high, you get blasted with bonds," was one dealer's comment.

There is such an overhang of unsold fixed-rate bonds on managers' books that prices managed to gain only ¼-½ point on the week, despite a one-point increase in New York.

Each morning, prices were marked up following the New York bond market's lead, but any chance to take profits was so eagerly seized upon that prices fell back again.

Interest rates have provided no clear lead in the last few weeks and many investors are disturbed by the huge funding requirements of the U.S. Treasury before the end of the year.

| BHF Bank bond average | |
|---|---|
| Nov 25 | Previous |
| 98.562 | 98.641 |
| High 1983 | Low |
| 102.017 | 97.699 |

Of the recent fixed-rate new issues, most were still standing at hefty discounts on Friday and many of the bid prices appeared to have come from the lead managers themselves.

Even an innovative deal from two of the most popular names in the market failed to spark much interest. The Prudential Insurance Company of America issued a $150m bond with warrants to buy shares of the newly-divested AT&T.

The morning the bond was launched, investors attracted by the two names bid the price up to 99⅝, yet by the end of the day, it had fallen to a 1¼ point discount and that widened to 1¾ by the end of the week as some people found the exercise premium of over 30 per cent a little expensive.

The floating rate market, recently much the strongest sector, has seen prices drift down slightly, though it still managed to absorb five new issues totalling $340m.

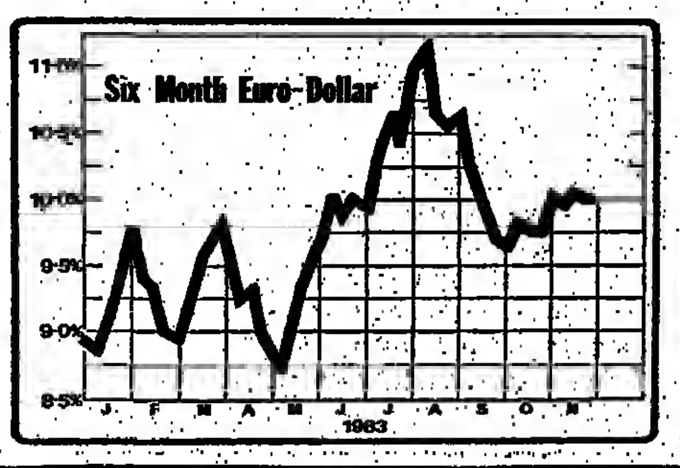
What is noticeable is a gradual tiering of credits. Now that there is such a variety of issuers, investors can choose whether they want to go for spread, liquidity or quality. Enough have gone for quality to force up spreads on the lesser credits.

Bank Misr, the Egyptian bank, had to pay a ½ point margin over the six-month London interbank offered rate (Libor) for a note with an average life of only three years. Ireland, not one of the most popular names in the Eurobond market, came at too tight a spread for many investors. Its bond paid ⅛ over 6-month Libor and by Friday, its price had dropped to a 1.70 per cent discount outside its 1.45 per cent front end fees.

But the good names are still holding up well and there still seems to be some pent-up demand in that area. Given this demand, if the Bank of New York can come to the market paying ⅛ point over three-month mean Libor, what would a really top-notch name like Morgan Guaranty get away with?

One large fund manager said last week that he had built up his position in floaters from virtually nothing three months ago to 15 per cent now. He would like to go further, but feels there is a shortage of good enough names: "We have tried to stay with jumbos and the best quality names like Sweden and the EEC. We would love someone else with that sort of name to come. Twenty per cent in floaters would suit us just fine, but we're having a bit of trouble getting there," he said.

Every new issue in the Swiss franc market last week was a Japanese private placement and six of the seven were convertibles.




CREDITS

# Fine margins for Belgium's $600m issue

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

BELGIUM, with its $400m floating rate note now safely out of the way, is about to turn its attention to the Eurocredit market.

The mandate for a $600m credit is to be formally awarded this week to the four leading Belgian banks – Banque Bruxelles Lambert, Banque de Paris et des Pays-Bas, Belgique, Kredietbank and Société Générale de Banque.

Following an increase in the floating rate note, the amount has been cut from $700m, but the credit's margins, as expected, have been set at a fine ⅜ per cent over the Eurodollar rate for the first four years rising to ½ per cent for the next four. Repayments will begin after a grace period of 4½ years.

This margin split is exactly the same as that obtained by France's Crédit National on its £100m credit last week and it testifies to the strong demand for quality loans now making itself felt in the Euro-credit market. Margins have begun to drop again to the point where some central bankers are beginning to wonder whether it is wise for banks to plunge headlong into another bout of lending on very fine terms.

There is also, they argue, a hint of over-enthusiasm in the way in which banks have been piling into such loans as that for Algeria, which was increased last week by $50m to $750m.

At the same time a $357m loan being raised by Italy's Snamprogetti to finance construction of a gas treatment plant in Algeria has been heavily oversubscribed, despite its 13-year four-month life.

By the end of last week Bank of America International, which is leading the deal, had assembled 17 lead managers, attracted by the loan's high margin of ⅝ per cent for the first nine years rising to 1 per cent for the remainder. The deal is guaranteed by Italy's Sace export credit agency and therefore counts as Italian risk.

Nonetheless downward pressure on margins for better rated borrowers has also led to a much wider differentiation of individual country risks. Starting with the Swedish £500m credit this autumn, it is now strongest in cases such as France and Belgium, both of which are offering banks an opportunity to balance out their high margin lending to Latin America with low margin, lowrisk lending in Europe.

Lead managers Morgan Guaranty, Banque Nationale de Paris and Hambros began to approach other banks last week on the Crédit National £100m deal, which unlike Belgium's will be a bullet, repayable in full in eight years' time. A feature of this credit is that it embodies a compromise over France's controversial attitude towards legal documentation.

The Crédit National loan is guaranteed by the French Republic, but there is no "cross-default" clause allowing lenders to demand their money back if the French Government defaults on any of its other obligations. Some French loans have had such a clause in the past, but the Treasury does not like them, and many lending banks feel they would not be properly protected in the, albeit unlikely, event of a default actually occurring.

Instead, Crédit National has agreed to write a clause into the contract of its new loan, committing it to introduce a cross-default arrangement if future lenders also require one. This gets round the basic worry of the banks that other lenders could come in on a preferred creditor basis in future.

Elsewhere, replies to Brazil's $6.5bn loan topped the $6bn mark on Friday, though they have begun to slow down now that the major banks have replied. Bankers in New York believe it will still take some time to complete the operation and to obtain replies from about 250 to 300 banks which are still outstanding.

A pocket of resistance has emerged in the Middle East which has traditionally limited trading links with Latin America and whose banks have only small exposure there.

Argentina should know early this week whether creditor banks will permit it to draw a loan instalment of $500m on Wednesday. The chances of this have increased since the Argentine request was endorsed last week by Sr Bernardo Grinspun, the incoming Economy Minister.

## CURRENT INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Lead Manager | Offer yield % |
|---|---|---|---|---|---|---|---|
| **U.S. DOLLARS** | | | | | | | |
| Belgium †ϕ‡ | 400 | 2003 | 20 | ⅛ | 100 | CSFB, Mgn. Guaranty, Mgn. Stanley, BBL, Paribas, Kredietbank, Soc. Gen. de Bque. | – |
| Korea Exchange Bk. †‡ | 50 | 1993 | 10 | ¼ | 100 | IBJ, Bk. of Tokyo | – |
| Bank Misr †‡ | 42 | 1987 | 3 | ½ | 100 | Dillon Read, First Chicago | – |
| Prudential Ins. Fundg. ¶‡ | 150 | 1993 | 10 | 10⅛ | 100 | Prudential-Bache Secs., Hambros Bk., CSFB, Salomon Bros. | 10.125 |
| DG Bank ¶‡ | 100 | 1990 | 7 | 11⅞ | 100 | DG Bank, Mgn. Hanover | 11.875 |
| European American Bk. †‡ | 75 | 1993 | 10 | ¼ | 100 | EBC, Amro, CSFB, Deutsche Soc. Gen., Soc. Gen. de Bque. | – |
| Volvo Intl. Fin. ¶‡ | 70 | 1993 | 10 | 8 | 100 | Dresdner Bank | 8.000 |
| Bk. of Tokyo ‡ | 100 | 1990 | 7 | 11⅞ | 100 | CSFB, Mgn. Gty., SG Warburg, Bk. of Tokyo | 11.875 |
| Bk. of New York † (c) ‡ | 75 | 1995 | 12 | ⅛ | 100 | Goldman Sachs | – |
| Allied Irish Banks †‡ | 100 | 1996 | 12 | ⅛ | 100 | CSFB, Allied Irish Invst. Bk. | – |
| Security Pacific ‡ | 100 | 1988 | 5 | 11¾ | 100 | SG Warburg, Mgn. Gty., SSCI | 11.750 |
| McDonalds ¶‡ | 75 | 1993 | 10 | 11⅝ | 100 | Mgn. Guaranty | 11.625 |
| Mitsubishi Heavy Inds. § | 100 | 1998 | 15 | 4⅞ | 100 | Mgn. Stanley, Nomura Intl. | * |
| **D-MARKS** | | | | | | | |
| FESCA ‡ | 80 ‖ | 1990 | 7 | 9 | 99 | BHF-Bank | 9.200 |
| IADB ‡ | 150 | 1993 | 10 | 8½ | 99 | Deutsche Bank | 8.482 |
| ISEC ‡ | 100 | 1990 | 7 | 7⅜ | 100 | Deutsche Bank | 7.375 |
| Volvo Intl. Fin. ¶‡ | 300 | 1993 | 10 | 4 | 100 | Dresdner Bank | 4.000 |
| EIB ‡ | 250 | 1991 | 8 | 8 | 99¾ | Deutsche Bank | 8.044 |
| **SWISS FRANCS** | | | | | | | |
| Nippon Kogaku **¶‡ | 80 | 1988 | – | 3⅜ | 100 | SBC | 3.375 |
| Nihon Radiator **§‡ | 30 | 1988 | – | 2⅞ | 100 | CS | 2.875 |
| Kyocera **¶‡ | 30 | 1988 | – | 4 | 100 | CS | 4.000 |
| Minolta **§‡ | 100 | 1989 | – | 2¾ | 100 | UBS | 2.750 |
| Sweden ‡ | 100 | 1993 | – | 6 | 100⅞ | Handelsbank | 5.966 |
| Ashikaga Corp. **§ | 30 | 1989 | – | 3 | 100 | UBS | * |
| Yamato Transport **§ | 50 | 1988 | – | 3 | 100 | UBS | * |
| Yasuzawa Glass **§ | 30 | 1989 | – | 3 | 100 | SBC | * |
| Japan Coca Bank ** | 100 | 1988/90 | – | 5⅛/⅞ | * | SBC | * |
| Sumitomo Realty **§ | 65 | 1989 | – | 3⅛ | 100 | CS | * |
| Nichiei Co. **§ | 30 | 1988 | – | 3⅛ | 100 | Paribas (Suisse) | * |
| Chugai Pharm. **§ | 100 | 1988 | – | 2⅞ | 100 | SBC | * |
| **STERLING** | | | | | | | |
| Credit National † (b) ‡ | 100 | 1995 | 12 | ⅛ | 100 | Hambros Bank, Mgn. Gty. | – |
| **GUILDERS** | | | | | | | |
| EEC | 200 | 1994 | 10 | 8¾ | * | Amro Bank | * |
| **ECUs** | | | | | | | |
| EEC | 50 | 1993 | 6½ | 11 | * | BBL, BNP, Sparekassen SDS | * |
| **YEN** | | | | | | | |
| EEC ‡ | 20bn | 1993 | 8 | 7.7 | 99.75 | Yamaichi Secs. | 7.885 |

* Not yet priced. ‡ Final terms. ** Placement. § Convertible. ¶ With warrants. ϕ Increased. ‖ Cut from original 100. † Floating rate note: coupon is spread over 6-month Libor. (b) Spread over 3-month Libor. (c) Spread over 3-month mean Libor. Note: Yields are calculated on AIBD basis.

U.S. BONDS

# Fall in Federal funds rate encourages a modest rally

U.S. BOND PRICES staged a modest rally at the start of the past holiday-shortened trading week, buoyed by lower short-term rates and, in particular, by an easier Federal funds rate.

With no trading on the Thursday Thanksgiving Day holiday and only very thin trading on Friday, the Treasury long bond closed up ¾ points on the week at 102½ to yield 11.63 per cent.

A drop of between 6 and 10 basis points in short-term interest rates spurred the modest rise in prices. But prices also reflected a better response than expected by investors to the latest Treasury auctions and a generally better "tone" to the markets.

Underlying the improved market sentiment was a decline in the Fed funds rate, which broke from its recent 9½-9¾ per cent trading range, dropping as low as 9 per cent on Tuesday before lifting back up towards the close of the week.

The easier Fed funds rate largely reflected technical factors related to the Treasury's unusual cash balances position, but it did serve to dampen speculation that the Fed may have implemented a more restrictive reserve policy in recent weeks.

The Fed acted to supply reserves through customer repurchase agreements on Monday and Tuesday, when the funds rate was already declining while a "slight" easing of conditions in September was revealed by the October minutes of the Federal Open Market Committee. All this had a positive psychological effect on the U.S. credit markets.

Nevertheless, most people believe there has been no fundamental shift in Fed monetary policy—and there is not likely to be one—at least in the immediate future.

As evidence of this, analysts point to the remarkably steady level of interest rates since the first quarter, despite a few hiccoughs. As Mr Bill Griggs, of Griggs and Santow, says "we do not think the Fed has changed policy. In our terminology, it is not firming or easing."

Mr Griggs adds that the Fed is "trapped in a fairly narrow range." With the monetary aggregates, the economy, and inflation all "O.K." he sees no reason for the Fed to change course.

The other major factors affecting the day-to-day performance of the markets at present are economic statistics and Treasury auctions.

This week the market has a sprinkling of both. The October leading economic indicator figures are due on Wednesday, followed by the November unemployment statistics on Friday.

In the meantime the Treasury is continuing to generate its year-end flood of new paper. Last week it auctioned $8bn of two-year notes at an average yield of 10.62 per cent and $8bn of one-year bills at an average yield of 9.09 per cent. Tomorrow $6bn of five-year notes are due to be sold.

In the corporate bond markets, new issue volume remains thin despite further moderate price rises last week. Among the new issues brought to market last week, Chase Manhattan launched a $300m issue of 9-year floating rate notes, Wells Fargo Mortgage Equity Trust sold $50m of 15-year floating rate notes and Barclays North American Corporation sold $50m of six-year 11.75 per cent notes priced to yield 11.8 per cent.

Last week also saw Chrysler signal its return to the longer-term credit market. Chrysler Financial filed with the Securities and Exchange Commission to offer $150m of five-year notes which are expected for sale next month. Chrysler Financial has continued to sell commercial paper but has not made a public note or bond offering since 1977. The parent car-maker's last long-term offering was a Federally-guaranteed note offering in February 1981.

Paul Taylor

U.S. INTEREST RATES (%)

| | Week to Nov 24 | Week to Nov 17 |
|---|---|---|
| Fed funds wkly aver ... | 9.26 | 9.42 |
| Three-month CDs ...... | 9.25 | 9.45 |
| Three-month T-bills ... | 8.78 | 8.82 |
| 30-year Treas bond ... | 11.63 | 11.77 |
| AAA Utility ........ | 12.63 | 12.76 |
| AA Industrial ....... | 12.38 | 12.51 |

Source, Salomon Bros. (estimates)
M1 figures for the week to November 16 will be published later today.

# Laser Discs put Pioneer back into the black

BY YOKO SHIBATA IN TOKYO

THE PIONEER electronics group returned to the black in the year ended September, 1983, thanks to an explosive increase in sales of its Laser Discs (video discs made to an optical formula), as well as to improved earnings at its overseas subsidiaries.

The group earned net profits of Y2.2bn ($9.5m) against the previous year's net losses of Y3bn, on consolidated full year sales of Y308.7bn, up by 4 per cent from the previous year. Consolidated net profits per share were Y18.94, compared with the previous year's loss of Y26.09.

Parent company pre-tax profits at Y14bn, were down 21.3 per cent from the previous year, while net profits of Y7.1bn were down 29 per cent. Sales for the parent company, at Y239bn, were up by 6.5 per cent.

Pioneer's sales of home audio equipment fell by 5.2 per cent during the year, to account for 42.9 per cent of sales, reflecting the slow recovery of demand. General audio sales rose by 4.9 per cent to account for 40.1 per cent of total turnover.

By contrast, sales of Laser Discs more than doubled to 17 per cent of total sales.

This was achieved mainly through the use of Laser Discs in Karaoke—a sing-along system at bars, where customers can sing into a microphone while they both listen to background music from discs and watch a visual programme. The system is booming in Japanese bars, where over 600,000 sing-along sets are installed.

During the past year, Pioneer has replaced its expensive helium-neon gas laser with semi-conductor laser discs, which will cut production costs and make the discs smaller.

Victor Company of Japan (JVC) is also entering this market, using its own VHD formula video discs which will lead to heavier competition

# Lay-offs at Sony France

BY OUR FINANCIAL STAFF

SONY FRANCE, a wholly-owned subsidiary of Sony Corporation of Japan, may lay off a number of employees in the near future, the parent company said in Tokyo.

The management of the subsidiary is currently in discussion with a labour representative, but nothing has been decided yet, Sony said. The subsidiary, located in Paris, employs about 800 people.

Despite the possible lay-offs, Sony said that it will be opening another factory south-west of Paris in spring next year.

# Dutch insurer increases profits

By Walter Ellis in Amsterdam

AMEV, the third largest insurance group in the Netherlands, announces earnings of Fl 144m ($47.5m) for the first nine months of this year, an increase of nearly 16 per cent.

Total income rose by 17 per cent to Fl 3.6bn. Premiums from the life sector rose by 13 per cent, while those from non-life insurance went up by 29 per cent. Other activities contributed 17 per cent more than in the first three-quarters of last year.

Amev was until recently the second-biggest Dutch insurer, but has been overtaken by Aegon, the new group formed by the merger of Ennia and AGO.

The results of the life sector reflect not only a sharp rise in new business, particularly in America, but also the high level of initial expenditure associated with such a development.

# SAS achieves 34% advance in earnings

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

SAS, the Scandinavian airline system, increased its profits by 34 per cent in 1982-83 in stark contrast to much of the world airline industry which is still running up massive losses.

Profits before taxes and allocations rose to SKr 601m ($75.5m) in the year to September, compared with SKr 448m in the previous 12 months. Operating profits of the airline alone more than doubled to SKr 461m from SKr 193m. The recovery has been dramatic since the loss-making years of 1979-80 and 1980-81

Group turnover rose to SKr 15.8bn from SKr 12.8bn in 1981-82.

The turnround stems from the airline's decision to concentrate its major efforts on the business travel market, with the introduction of its EuroClass on European routes and more recently First Business Class on intercontinental routes.

North Atlantic routes have been profitable this year for the first time, while the introduction of low fares for the tourist market had resulted in a further growth in passenger traffic.

# GM rules out Terex deal

CHICAGO — General Motors apparently has no plans to re-enter the construction machinery business by regaining control of Terex, the U.S.-based group with plants in Scotland and Brazil which it sold to IBH Holding of West Germany.

There has been speculation since IBH sought court protection from creditors earlier this month that GM might wish to re-establish control over its former subsidiary.

GM executives made clear over the weekend that the company now regards liquidation as the most likely means of safeguarding its interests and that there would be little attraction in taking Terex back

Reuter

# New president at Sumitomo Bank

THE SUMITOMO BANK has elected Mr Koh Komatsu president. Mr Koh Komatsu, deputy president, replaces Mr Ichiro Isoda, who becomes chairman of the board. Current chairman of the board, Mr Kyonosuke Ibe relinquishes his position to become adviser and member of the board, and has been given the title of supreme counsellor in recognition of his contribution to the bank. Mr Chusuke Takahashi has been elected deputy chairman of the board. He was deputy president.

● EUROPEAN AMERICAN BANK has appointed its president, Mr Nicholas A. Sica, as acting chief executive officer from January 1. He will succeed Mr Harry E. Ekblom, who is retiring on December 31. The board has also formed a nominating committee to conduct a search for a new chief executive officer.

● Mr Henry Burk, formerly president, A. C. NIELSEN CO's marketing research group, will replace Mr Arthur C. Nielsen Jr. as chairman and chief executive officer of the parent company on May 1, following his retirement. Mr Richard Vipond, head of Nielsen's Canadian operations, will assume the presidency of the worldwide market research group on February 1. He will retain his position of president and chief executive officer of Canada.

## INTERNATIONAL APPOINTMENTS

● Mr A. Richard Lehman, formerly manager of marketing services for the carbon products division of UNION CARBIDE CORP. has been appointed director of sales—speciality products, with the carbon products business centre of Union Carbide Europe S.A. in Geneva. Mr Lehman will replace Mr J. H. Brannan, who will retire in February.

● ULTROLAB GROUP, Swedish-based manufacturer of clinical chemistry analysers, has appointed Dr Niek Roosdorp to the newly created position of international marketing director. Dr Roosdorp joins Ultrolab from the American Syva Company where he was international market development manager.

● Mr Rolf Haenggi has been appointed manager at the Swiss headquarters of ZURICH INSURANCE COMPANY from January 1. Mr Marcel Bardola will become manager of the affiliated Vita Life Insurance Company, Zurich.

● JOCKEY INTERNATIONAL INC. of Kenosha, Wisconsin, U.S., has named Mr Joe van Gent its director - European licensing division, located in Brussels, Belgium. Mr Joe van Gent was the former Benelux area manager for Kurt Salmon Associates.

Mr Joe van Gent, director of Jockey International's European licensing division

● Mr Jack L. Messman has been appointed executive vice president and chief financial officer for WARNER AMEX, the joint venture cable company owned by Warner Communications Inc. and American Express Company. Mr Messman was executive vice-president and a member of the board of Safeguard Scientifics Inc and chairman of its subsidiary Novell Inc.

More than 500,000 homes in New York are to be served by a cable television system constructed by Warner Amex. To handle these new franchises, Mr Richard Aurelio has been named as president of Warner Amex Cable Communications of New York, the company that will build and operate the system in the Brooklyn and Queens district of the city. Mr Aurelio was previously acting senior vice president for programming, marketing and sales. The New York system will be the largest single cable facility in the Warner Amex operation and one of the largest in the U.S.

● EUROPEAN AMERICAN BANK president Mr Nicholas A. Sica will assume the additional post of acting chief executive officer on January 1. Mr Sica will succeed Mr Harry E. Ekblom, who is retiring. The Bank has also formed a nominating committee to conduct a search for a new chief executive officer.

● Mr William J. Johnson has been elected vice-president, planning, by the SUPERIOR OIL CO. He joins Superior after having served as president, chief executive officer and director of Anglo Energy.

● Mr Jack Klompe has been elected a director and president of INTERNATIONAL INCOME PROPERTY INC., the U.S. real estate investor. The appointment of Mr Klompe, who is chairman of IIP's advisor, Dusco Inc., is from January 1.

● LOTUS DEVELOPMENT CORP of Cambridge, Mass., U.S., has promoted Ms Carol Kochmann to director of finance and named Mr Jeffrey A. Weber corporate controller. Ms Kochmann joined Lotus in 1982 as controller. She is now responsible for bank and investor relations, cash management, and international finance relations. Mr Weber comes to Lotus after seven years at Polaroid where he served most recently as senior financial manager. He is responsible for planning, designing, and implementing internal financial systems, controls, and procedures. Ms Dale Troppito has been promoted to vice-president of software development. Ms Troppito joined Lotus as director of software development earlier this year from Software Arts, Inc., where she was software development manager. She is responsible for development of all new products and for support of technical development.

● Mr Terrence S. Terauchi has been made senior counsel in charge of a new government affairs office in Sacramento, California, of the AMERICAN INSURANCE ASSOCIATION. Mr Terauchi, vice-president of AIA's western regional office in San Francisco, will be responsible for all government affairs activity relating to California. Mr Terauchi joins the Association after more than two years as advisor/director in the legislative policy unit of the office of California State Senator David Roberti, president pro tempore of the Senate.

● Mr Clark E. Lemke will join SUNDSTRAND as corporate treasurer on November 28. For the past 11 years Mr Lemke has been employed by Gould, Inc. of Rolling Meadows, Illinois, in a variety of both line and staff corporate positions. He has held domestic and international assignments with Gould, most recently as corporate assistant treasurer. Sundstrand Corp is based in Rockford, Il.



## FT INTERNATIONAL BOND SERVICE

| U.S. DOLLAR STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Average price changes... On day 0 on week +0¼

| DEUTSCHE MARK STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Average price changes... On day 0 on week −0¼

| SWISS FRANC STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Average price changes... On day 0 on week −0¼

| | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Average price changes... On day 0 on week +0¼

| YEN STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Average price changes... On day −0¼ on week +0¼

| OTHER STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| FLOATING RATE NOTES | Spread | Bid | Offer | C.dte | C.cpn | C.yld |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Average price changes... On day 0 on week 0

| CONVERTIBLE BONDS | Cnv. date | Cnv. price | Bid | Offer | Chg. day | Prem |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |



EUROBOND TURNOVER
(nominal value in $m)

| | Cedel | Euro-clear |
|---|---|---|
| U.S. $ bonds | | |
| Last week ... | 5,782.8 | 13,564.9 |
| Previous week | 7,862.1 | 10,544.2 |
| Other bonds | | |
| Last week ... | 1,751.4 | 1,425.6 |
| Previous week | 1,528.5 | 1,277.1 |

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg.day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Blyth, Eastman, Paine, Webber International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on November 25

An Important Message from the GULF INVESTORS GROUP

# WE BELIEVE GULF MANAGEMENT'S ROYALTY TRUST ANALYSIS IS WRONG

**Dear Fellow Gulf Shareholder:**

Gulf is circulating proxy materials dated November 16, 1983 addressed to institutional holders of Gulf stock. These materials purport to analyze the valuation of Gulf common stock after creation of a royalty trust with a 75% net profits interest in Gulf's U.S. oil and gas reserves. We are amazed at the low value placed on Gulf by its own management in these materials.

**In our opinion, Gulf's materials reflect a gross undervaluation of Gulf.** Gulf's materials assign an absurdly low value of only $5.10 per share for Gulf Oil common stock after creation of the trust. This value is wrong for the following reasons:

**FIRST:** Gulf Oil Corporation, after a 75% royalty trust, would have a book value estimated at $40 to $45 per share. **Gulf's $5.10 per share market valuation would mean that the company's stock trades at only 11% to 13% of book value.** ***In today's market, major oil company stocks generally trade at 70% to 100% of book value.***

**SECOND:** Gulf Oil Corporation, after a 75% royalty trust, would have cash flow in excess of $11.00 per currently outstanding share. **Major oil company stocks trade at 2.5 to 3.5 times cash flow,** ***but Gulf management is suggesting that its own stock would trade at a meager 0.5 times cash flow.***

**THIRD:** After a 75% royalty trust, Gulf's remaining operations would have a J. S. Herold valuation estimated at $62 per share (after adjusting Herold's most recent value of $114 per share to eliminate 75% of the value assigned to U. S. oil and gas reserves). **Gulf's $5.10 per share valuation represents only about 8% of this adjusted Herold's valuation.** ***In reality, major oil company stocks trade at 35% to 50% of J. S. Herold valuation.***

**FOURTH:** Gulf Oil Corporation, after a 75% royalty trust, would have over $30 billion of revenues, $16 billion of total assets and $1.9 billion of annual cash flow. **Yet Gulf management would have you believe that the company would have a total market value of only $840 million.**

**FIFTH:** Gulf Oil Corporation, after a 75% royalty trust, would continue to own 137 million shares of Gulf Canada Ltd. Based on the current price for Gulf Canada on the American Stock Exchange of about $14 per share, **each share of Gulf Oil would have an underlying $11.62 in market value of Gulf Canada stock. This value alone amounts to more than two times the $5.10 valuation for the whole company contained in the Gulf materials.**

**SIXTH:** Gulf Oil Corporation, after a 75% royalty trust, would in our opinion have sufficient cash flow to continue to pay annual cash dividends in the range of **$2.00** to **$3.00** per share. Therefore, on the basis of Gulf management's $5.10 per share valuation, **the annual dividend yield on the stock would be an incredible 40% to 60%.**

**SEVENTH:** Gulf uses a multiple of **only 5.3 times cash flow** in valuing the royalty trust units. **This multiple is unsupportably low in comparison to the multiples of eight to ten times cash flow which apply in the real world to other royalty trusts.** We believe this low multiple is particularly inappropriate in light of Gulf's annual development expenditures of $700 million, which should result in increased reserves and an extended productive life for the properties. **We believe that a multiple of 8 to 10 times annual cash flow of $6.75 per unit is more appropriate.**

**EIGHTH: During the past five years, Gulf has spent $9.1 billion on operations other than U. S. oil and gas. This equals $55 per current share.** ***Does Gulf management really believe that those operations plus the retained 25% of U. S. oil and gas reserves would have a value of only $5.10 per share?***

We believe the foregoing demonstrates that Gulf has **grossly understated** the value to shareholders of the royalty trust and the remaining company and shows a basic misunderstanding by Gulf and its advisors of the impact of a royalty trust on Gulf. We strongly believe there is substantial value in Gulf, and that the value can and should be realized for all Gulf shareholders. **We urge you not to base your vote at the December 2 special meeting on Gulf management's royalty trust analysis which we believe to be erroneous.**

## Don't Be Confused About Taxes

Gulf Management has repeatedly claimed that a royalty trust is not good for individual shareholders.

**Remember:** **The Gulf Investors Group consists of both corporations and individuals.** These investors all believe the enhancement in the value of Gulf stock which could be achieved by a trust would substantially exceed the related tax liability for both individuals and corporations.

**Remember:** Other shareholders, **both individuals and corporations,** have overwhelmingly supported royalty trusts when given the opportunity. Holders of over **96%** of Mesa's, Southland's and Sabine's shares voting on the creation of trusts supported their companies' royalty trust distributions.

**Remember:** Our goal is the same as yours. We are working to increase value for **all** shareholders.

## Don't Give Up Your Rights

**Gulf management's reincorporation proposal is a defensive move to eliminate important shareholder rights.**

- All shareholders **lose** their right to cumulative voting in the election of directors.
- Gulf shareholders **lose** the right of a 10% holder to require Gulf to submit proposed charter amendments to a shareholder vote.
- Gulf shareholders **lose** the right of a 20% holder to call a special shareholders meeting.
- **REMEMBER: You don't have to decide whether you are for or against a royalty trust at this time. The most important thing for you to decide is whether you want to preserve your right to have shareholder ideas such as a royalty trust come before you at some future time.**

## YOU CAN CHANGE YOUR VOTE

**Even if you have already voted for the reincorporation proposal, you have every legal right to change your mind and vote AGAINST on a later dated BLUE proxy card. Since time is short, please mail your proxy today in the envelope that has been provided to you. If you are concerned that your vote may not be received in time for the December 2 meeting, please call our proxy solicitor for immediate assistance:**

THE Carter ORGANIZATION, INC.

Toll-Free 800-221-3343
or
212-619-1100 (collect)

## VOTE AGAINST MANAGEMENT'S REINCORPORATION PROPOSAL.

Thank you once again.
On behalf of the Gulf Investors Group

T. Boone Pickens, Jr.

T. Boone Pickens, Jr.

# UK COMPANY NEWS NOVEMBER 26

## RIT's £400m merger an 'attractive opportunity'

THE FORMAL offer document for the recommended £400m merger of the Charterhouse Group and RIT and Northern (RITN) has been sent to shareholders.

For some time, Charterhouse and RITN have been pursuing the expansion of their involvement in the "financial services" sector. The expected changes in the London capital market and the need to provide an integrated range of services on an "international basis" will, they believe, open up exciting opportunities for companies with the financial resources to take advantage of the changing circumstances.

Both boards consider that the merger presents an "attractive opportunity" to implement this strategy by creating a group which will have:

- A combination of different but complementary financial service businesses, bringing together for the first time a London merchant bank, a London stockbroker and a U.S. investment bank.
- A substantial capital base, the largest of any independent London-based merchant banking group.
- An experienced management team bringing together a wide range of skills.

The offers are on the basis of 100 ordinary of the new company Charterhouse J. Rothschild for every 100 Charterhouse ordinary. For every 100 RITN ordinary the offer is 257 ordinary shares of Charterhouse J. Rothschild.

RITN shareholders will be offered 100p cash for each preference share.

Also released on Friday were interim results from RIT and Northern. For the six months to September 30, 1983, net revenue available for ordinary shareholders rose from £3.82m to £4.47m. As forecast, there is no interim dividend distribution for the nine months to December 31, 1983 of 4.95p.

During the period the revenue contribution from investment holdings decreased from £4.86m to £3.56m, but investment dealing and underwriting increased from £128,000 to £1.94m. Revenue from equipment leasing and other financial services was up at £1.75m compared with £1.18m.

Tax for the opening six months was £2.38m (£2.24m) leaving a net surplus of £4.71m (£3.92m). Minority interests were £169,000 (£37,000) and preference dividend payments were a little higher at £66,000 (£65,000).

Net assets available to ordinary shareholders pre-conversion and before exercise of warrants and options, as at September 30, are given as £245.04m compared with £181.39m. After conversion, net assets are shown as £266.51m against £199.64m. The value per ordinary share is given as 263p (195p) pre-conversion, and 235p (190p) post-conversion.

The group's interest from L. F. Rothschild, Unterberg, Towbin comprising six months interest on its debenture and two months share of profits from its 25 per cent partnership interest in August and September, has been included under investment holding.

### Arrow Chemicals

The rights issue by Arrow Chemicals at 56p per share has been accepted in respect of 1,404,560 shares (93.6 per cent).

The balance has been sold in the market at a premium. A distribution of 12.48p per share will be made to shareholders entitled thereto, except that no payments of less than £2 will be made.

## British Land acquires 15% of Dares

BY MICHAEL CASSELL, PROPERTY CORRESPONDENT

British Land is acquiring a 15 per cent stake in Dares Estates, the property development and investment group in which Caparo Properties has built up a similar shareholding.

In a move which will spread ownership of shares in Dares and reduce Caparo's holding from 14.2 per cent to 11.2 per cent, British Land is selling for £4.35m a portfolio of properties to Dares in a shares, cash and mortgage deal.

The nine properties involved are located in London and the south east and include shopping development in Sittingbourne, Kent, St Albans and Croydon.

They have a current rent roll of £400,000 a year.

British Land—through Real Property and Finance Corporation a wholly-owned subsidiary—is to subscribe £1m for 5,714,286 10p ordinary shares at 17½p per share—equivalent to 15 per cent of the enlarged share capital.

The balance of the purchase cost is to be financed by a £2.5m loan from Real Property and Finance and payment of £850,000 in cash. The loan will be secured by first legal charges over all the properties involved and is repayable between December 1985 and December 1987.

Mr John Ritblat, chairman of British Land, said: "This £1m quoted investment and the release of part of our smaller property portfolio is part of the continuous process of portfolio management. The mix of shops and offices we have sold to Dares suits their property portfolio better than ours and we have taken an investment in turn to demonstrate our confidence in their management."

Caparo, the quoted property arm of Mr Swraj Paul's Caparo Industries, raised its stake to nearly 15 per cent in October. Mr Paul then described the share stake as an investment and yesterday he said the company's position remained unchanged.

In 1982, pre-tax profits of Dares were hit by problems in the U.S. and fell to £766,000 (£883,000). In the first half of 1983, however, a recovery pushed pre-tax profits up to £410,000, compared with £105,000 in same period of 1982.

Since last December, Dares has sold about £5m of residential and commercial property, reducing the number of properties in its investment portfolio from 150 to 20. Following the purchase from British Land, the group's rent roll will exceed £1.5m and it expects it to rise to over £2.5m over the next five years.

## Rank sells Dutch film business to Cannon

By Charles Batchelor

THE Rank Organisation is negotiating the sale of Rank Tuschinski, its Dutch cinema and film distribution business, to Cannon Group, a U.S. company and owner of the Classic cinema chain in the UK.

This is the latest in a series of disposals by the hard-pressed office equipment, leisure and industrial holding group. It earlier this week announced the proposed sale of its 50 per cent stake in its Australian television business to its Japanese partner.

Tuschinski has 18 cinemas in the Netherlands with 52 screens and is the major film exhibitor in the country's four largest cities, Amsterdam, Rotterdam, The Hague and Utrecht.

Tuschinski is also the leading Dutch film distributor acting for the UIP group of the U.S. and for many Dutch-made films.

The film distribution business of Tuschinski has been profitable, but cinema admissions have been depressed in the past year or so. The company has not had access to the successful films which Rank's Odeon chain of cinemas in the UK have been able to show, a Rank spokesman said.

Rank declined to put a value on the proposed sale, but said it should be completed by the end of February.

Cannon, which is listed on the U.S. over-the-counter market, claims to be the largest independent film producer in the U.S. Recent production include "The Wicked Lady."

Rank recently sold three cinemas in Dublin though this deal still awaits official approval. It still has a profitable film operation in Portugal.

## GrandMet's £1m bid for Rosser

BY CHARLES BATCHELOR

Grand Metropolitan, the hotel, brewing and leisure group, emerged on Friday as the mystery bidder for Rosser and Russell, the loss-making privately-owned building services engineer.

The two groups have agreed on an offer worth less than £1m for Rosser, which had net assets of nearly £7.6m on March 31 1983 the last date for which audited figures have been published.

Rosser, based in Hammersmith, West London, made a "substantial loss" on turnover of about £30m in the year ended March 1983 and a smaller loss in the current year. It expects to make a profit in the year ending March 1985.

The company provides heating, air conditioning, electrical, fire protection, sanitary and mechanical services to the building industry.

The purchase price will depend largely on a valuation of Rosser's property assets, comprising its head office at Queen's Wharf, Hammersmith and offices in Leeds and Newport, but will not exceed £1m. It will be paid in cash in three instalments.

The bid has been accepted by the holders of 70 per cent of the equity, mainly members of the Naylor, Russell and Wallace families.

GrandMet sees the purchase as expanding the activities of GrandMet International Services. GIS is engaged in work camp management, refurbishment projects, waste services, pollution control and hospital and catering services.

## Tomkinsons slows in second half

FOR THE second half, profits before tax of Tomkinsons, carpet maker and spinner, showed a marginal rise to £476,000, against £449,000. With the substantial increase at halfway, the profit for the year ended October 1, 1983, comes out at £908,000, compared with £666,000.

Turnover for the year was a little ahead at £13.93m, compared with £13.43m, and the trading profit was £200,000 higher at £893,000. After tax £32,000 (£81,000), the net profit was £876,000 (£585,000) for earnings of 30.5p (20.5p). The dividend is raised from 4.2p to 5p net.

As conditions allow, the directors will continue to invest in advanced equipment so as to improve the company's competitive position.

● **comment**

Mr Tomkinson definitely makes a better class of profit margin these days. Since profits hit bottom in 1979, turnover has been static, but trading profits have gone up sixfold. In the meantime, the product line has been switched from expensive woven carpets to cheaper—but still up-market—tufted. At the same time, a lot of money has gone into new plant for producing custom-designed contract carpet. So though the company is distinctly pessimistic about growth in the retail carpet market, this is scheduled to be the year in which sales volumes move off the plateau, with contract business—especially to electronic offices—making up the difference. On zero tax—due to all that capital expenditure—the historic p/e is only 5.5 at today's unchanged price of 180p. The yield is a perfectly respectable 4 per cent. The shares could go further.

### Taddale flops

Underwriters have been left with over half the £6.4m rights issue launched by Taddale Investments, a small industrial holding company headed by Mr Michael Carlton who has just been joined by Sir Monty Finniston as non-executive chairman.

Shareholders took up 9.94m of the 21.76m shares on offer—just 45.67 per cent. The issue was a heavy three-for-five at 30p each, pitched in conjunction with the £1.5m acquisition of Branon, a loss-making oilfield services and construction engineering company.

Taddale had hoped to join the stock market but the Exchange's Quotations Committee refused entry on the basis that it did not have an identifiable business activity that had been continuous for the last five years. The shares continue to be traded on Harvard Securities' over-the-counter market.

## Muller agrees to sell his 51.4% in De Vere Hotels

BY DAVID DODWELL

MR LEOPOLD MULLER, the octogenarian chairman of De Vere Hotels and Restaurants, has agreed, in principle, to sell his 51.4 per cent stake in the company to an anonymous shell company calling itself Selfpost Limited.

Selfpost is paying Mr Muller 340p per share, which values his stake at £20.25m, and the group as a whole at £39.4m. A similar offer is to be made to remaining shareholders in due course.

Talk of a bid for De Vere's, which owns London's Connaught Rooms, 14 high class hotels, including five star hotels in Brighton, Bournemouth and Eastbourne, Mirabelle's Club in London, and two Overton's fish restaurants, has circulated for more than three years.

In the recent past, De Vere's itself has tried to excite among possible purchasers. This has included efforts to improve trading performance, which has been persistently dull despite a high quality asset portfolio. In the nine months to the end of September 1983, however, De Vere revealed pre-tax profits up fivefold to £1m.

Company executives, who remained resolutely unavailable on Friday, said in a brief official statement that the arrangements were subject to "certain financial assurances." These should be available by Monday, December 5, at the latest, after which date a formal offer for remaining shares will be made.

Speculation was rife before the weekend over the identity of the bidder. No substantial UK hotel group is understood to be involved. Selfpost is thought to be a shell company used to disguise the identity of the bidder, and it is possible that at this stage, even De Vere's have not been told of Selfpost's true identity.

## Bell Electronics reverse merger with DB Instrument

THE DIRECTORS of Bell Electronics are now in a position to put before shareholders proposals for the sale of the offshore operating business based at Great Yarmouth and Aberdeen to Ferranti, and for a "reverse" merger with DB Instrumentation, a private high technology defence electronics company based at Aldershot.

Subject to approval by the Stock Exchange to deal in the shares of the company in the USM, Bell will merge with DB by issuing 6.56m ordinary shares to the three shareholders—Mr Don May, Mr Barry Harper, and Dr Lynn Lipscombe. The first two will each own 28 per cent of Bell's enlarged capital and Dr Lipscombe will hold 14 per cent.

The Takeover Panel has confirmed that they will not be required to make a general offer for the company. Following the merger Ferranti will own 9 per cent of the Bell capital, increasing to 10 per cent if full conversion rights are exercised.

The directors say the merger will expand the company's profitable business in underwater acoustics and related electronic instrumentation. They believe they will be able to exploit the "considerable potential" for growth in the marine electronics and underwater military technology sectors.

Ferranti will pay nearly £1.04m cash for the offshore business, subject to adjustment to reflect trading results from October 1 1983 to completion. The agreement also provides for the settlement of all outstanding trading accounts which at September 30 came to a net total of around £289,500 due to Ferranti.

Ferranti will also subscribe in cash at par for £200,000 non-floating rate convertible unsecured loan stock 1986.

For the year ended September 30, 1983 the Bell group turnover came to £1.85m (£1.93m) and the loss before tax was £497,700 (profit £56,600), with the offshore business accounting for losses of £571,300 (£79,100).

After minority credit £1,100 (£4,000), extraordinary debits of £409,800 (£31,700) and last year tax of £32,800, there is an attributable loss of £906,400 (£3,900). Per share the deficit is 17.7p (earnings 1p).

Extraordinary items comprise: reducing book value of fixed assets to net realisable value £279,800 (nil); costs on sale of assets to Ferranti £50,000 (nil); costs arising on merger with DB £80,000 (nil).

At September 30 DB had net assets of £354,100. In the nine months to that date its turnover was £992,600 and profit before tax £169,900. At the same date, Bell had net tangible assets of £125,000 on the basis that the offshore business had been sold.

On July 27, Bell requested suspension from the USM, but will apply for restoration and permission to deal in the consideration shares. Such dealing is expected on December 22. The merger with DB and the sale to Ferranti are both conditional on shareholders' approval and are each conditional on the other being implemented. Extraordinary meeting is called for December 19.

Bell proposes to change its name to DBE Technology Group.

## C. H. Beazer in £7.9m expansion

C. H. Beazer (Holdings), the West Country housing and building materials group, is to take over Monsell Youell, a privately-owned house-builder in a cash and share deal worth £7.94m.

Beazer has expanded rapidly by acquisition in the past 12 months, taking over Second City Properties for £18.1m in April and three brickworks for £3m in September. A £13.7m bid for R. Green Properties was topped by a higher offer from another company.

Conditional contracts have now been exchanged for the purchase of Monsell for £530,000 cash and £7.41m in shares. The 2.75m shares involved, amounting to 14 per cent of the enlarged share capital, have been placed by stockbrokers L. Messel and Co.

Monsell makes lower priced housing and operates in an area from Luton to the West Country. It built 408 houses in the year ended March 31, 1983, and made pre-tax profits of £1.6m on turnover of £16.8m.

Pre-tax profits in the six months ended September 30 1983 were about £1m and the company had net tangible assets of about £6.4m on that date. Mr Brian Beazer, chairman, said: "This acquisition takes us into the Luton and Bedford area. We see ourselves ultimately as a completely national housebuilder."

## Disappointing first quarter sales for Barratt Devs.

IN THE first quarter of the current year Barratt Developments experienced disappointing sales in the private housing sector, but these had recovered strongly through October and November, the chairman Sir Lawrie Barratt told the annual meeting.

The hot weather was a factor, and the World in Action television programme on timber frame housing undoubtedly had an effect, during the first few weeks of the quarter, in "damaging the whole housebuilding industry." Sir Lawrie described the programme as "irresponsible and ill informed."

It was unfortunate that the damage done to Barratt's share value was not restored with the publication of the reports by the NHBC and the Building Research Establishment "which so clearly vindicated the form of construction."

Sir Lawrie told shareholders that "Barratt, like a number of other volume builders, remain committed to timber frame construction as, while it is a more expensive form of construction, it is highly efficient in energy saving and a better quality product."

## Second half loss seen at Humphries

ALTHOUGH A small trading profit of £235,000 against £85,000 was made by Humphries Holdings in the six months to September 30 1983, the directors say a loss will be incurred in the second half due to the worsening trading conditions in its UK markets.

The company, a developer and printer of motion films, swung back into profit at the pre-tax level with figures of £106,000. In the corresponding period last year, losses of £56,000 were incurred and these increased to £111,000 at the year-end.

The board believes that the group loss for the current financial year is likely to exceed last year's.

The pre-tax profit was after interest charges down from £141,000 to £129,000. There was a lower tax charge of £37,000 against £79,000, minorities were the same at £18,000 but there was an extraordinary debit this time of £225,000.

This comprised a loss of £304,000 on the sale of Filmatic Laboratories, completed on July 25 1983, less a profit, after tax, of £79,000 on the disposal of the remaining interest in Twickenham film studios.

### Walker & Staff

Tight control on overhead expenditure and maintenance of margins despite intense competition, led to a rise in pre-tax profits at engineering supplier Walker & Staff Holdings from £81,000 to £110,000 in the first half to September 30, 1983.

The directors say the company's industry still faces difficult times. However, they anticipate that the results for the year will exceed the £173,886 (£93,452) earned in the previous 12 months and the dividend of 1.5p net per 5p share will at least be maintained.

In September the company bought 112,415 of its own ordinary shares—equal to 4.99 per cent of its issued capital—for cancellation. This purchase absorbed £40,000.

Turnover moved ahead from £1.95m to £2.07m including exports of £94,000 (£30,000). Loan stock interest took £4,000 (same) and after tax, of £52,000 (£42,000) earnings per share are given as 2.71p (1.73p).

## Aeronautical & General advances in first half

INCREASED PRE-TAX profits, up from £246,030 to £345,944, are reported by Aeronautical & General Instruments for the six months to September 30, 1983. Group turnover was down, however, from £5.27m to £5.25m.

The directors say that in the second half of the year it normally experiences some seasonal fluctuations, but they expect both turnover and profits to be higher than in the first half.

The company — its principal activities include design, development and manufacture of advanced telecommunications products, military and marine systems and leasing of equipment — is currently responding well to increasing competition, especially in export markets.

Development work continues, and it is planning the introduction of a number of new products, particularly in telecommunications during the next financial year. The liquidity position is satisfactory.

Group trading profits in the first half improved from £466,518 to £540,456. The pre-tax figure was after depreciation down from £141,584 to £136,550, and interest charges of £57,962 (£78,904).

First half tax was up from £123,015 to £172,972. Earnings per 25p share improved from 3.02p to 4.27p. Comparatives have been re-stated throughout.

## Demerger of Pitman Press

A circular has been despatched explaining plans for the demerger of Pitman Press from other activities of the Pitman group. This will be by constituting it as an independent company, which will be owned directly by individual shareholders of Pitman and the executive directors of Pitman Press.

For the six months to September 30 1983 Pitman, a publisher, printer and proprietor of colleges, pushed up pre-tax profits by £90,000 on a £1m increase in turnover.

Trading prospects for the second half, the directors say, are expected to be better than last year, and there should be a further reduction in the interest charge.

They add that preference dividend payments have now been paid up to date. The ordinary 50p shares are not listed.

## RESULTS DUE THIS WEEK

THE CITY is frankly baffled as to what to expect from the Habitat Mothercare interims to September, due on Thursday. Because of the change of year-end, this will be the first set of straightforward interims from the combined group, and there is no benchmark for comparison. Rough guesses put pre-tax profits in the £12m-£13m range; more important than the absolute figure is the underlying scale of increase, which is expected to be around 20-25 per cent.

Uncertainties over the likely level of BP's stock profits or losses mean forecasts for its historic cost net income for the third quarter to September 30 range between £240m and £270m. However, it is clear that the results, to be announced on Thursday, will show an increase in exploration and production profits thanks to the first contribution from the Magnus field, which came on stream in August. Now that the dollar is stabilising at a stronger level, exchange rate losses should be down on the second quarter, when net income was £219m. Meanwhile, the dollar's strength will have pushed up the local currency costs of crude, thus putting pressure on downstream margins. However, stockbuilding by industrial customers in anticipation of an economic upturn may have improved volumes downstream.

The real interest in MEPC's results for the year to September 30, due to be published on Wednesday, will centre more on the annual property revaluation than on the bottom line. The inclusion of the £40m Long Acre office development for the first time plus currency gains on the Australian and U.S. property portfolios could see net assets per share rise from 356p to 375p, fully diluted. Meanwhile, a good flow of rent reviews and new lettings is expected to fuel an increase in pre-tax income from £33.4m to at least £40m. On that basis, a 10 per cent dividend increase to 6p net for the year seems likely.

When the Royal Bank of Scotland announces its results for the year to September 30 on Wednesday, the consensus is for a decline in pre-tax profits from £90.5m to around £80m. Bad debt provisions should show another steep rise from £30.8m to perhaps £45m, in line with the recent escalation in small company insolvencies. However, the bank has, in recent years, produced an erratic earnings performance in the first half, thus throwing many full-year forecasts off track. That, combined with the possible inclusion of further property profits, means there could be surprises in store. There may be a slowdown in the rate of dividend increase, with a 10 per cent rise in the distribution to 7.4p net for the year.

A big increase in fibre volumes should provide the main thrust behind a big improvement in Courtauld's results for the six months to September 30, due to be announced tomorrow. Fibre imports have been decreasing thanks to the comparative weakness of sterling, while clothing demand from retailers has been growing steadily. The results should also include about £2m from three months' use of the £70m raised by the rights issue. On this basis, the City is looking for an increase from £22.6m to a maximum of £40m before tax, with a rise in the dividend from 1p to 1.2p net.

It seems agreed that Allied Lyons is headed for its third good year in succession. The interim figures to September, due tomorrow, are expected to reflect an upturn in all divisions—even wines and spirits, which have had a sober time of it lately. The star performer is expected to be food, if only because last year's figures were hammered by strike action. Beer profits should be appreciably ahead, mainly because of continued rationalisation. The betting is on pre-tax of £85m, against last year's £74m.

Also due next week are interim figures from BPB Industries and Henderson Administration, on Wednesday, interims from the 600 Group on Thursday, and Chloride interims Friday.

| Company | Announcement due | Dividend (p)* Last year Int. | Final | This year Int. |
|---|---|---|---|---|
| **FINAL DIVIDENDS** | | | | |
| Cardiff Property | Monday | 0.8 | 1.0 | 0.8 |
| Carr, John (Doncaster) | Monday | 0.8 | 1.3 | 0.78 |
| Fenner, J. H. (Holdings) | Monday | 3.63 | 5.37 | 2.0 |
| Canvermoor | Friday | — | — | — |
| Davenports Brewery (Holdings) | Thursday | 1.21 | 3.45 | 3.4 |
| Dundee and London Investment Trust | Thursday | 1.5 | 2.75 | 1.5 |
| Gomme Holdings | Monday | — | — | — |
| MEPC | Wednesday | 2.0 | 5.25 | 2.0 |
| Morland and Co. | Wednesday | 1.5 | 3.5 | 2.0 |
| Polly Peck | Friday | 6.3 | 9.0 | 9.0 |
| Radio City (Sound of Merseyside) | Monday | — | 1.8 | — |
| Royal Bank of Scotland | Thursday | 2.8 | 3.9 | 3.0 |
| Samuelson Group | Wednesday | — | 2.0 | — |
| United Wire Group | Thursday | 2.2 | 3.55 | 2.2 |
| Wearwell | Wednesday | 1.2 | 1.55 | 1.32 |
| **INTERIM DIVIDENDS** | | | | |
| Allied-Lyons | Tuesday | 2.2 | 3.85 | |
| Allied Plant Group | Wednesday | — | — | |
| Bassetts Foods | Tuesday | 1.0 | 2.7625 | |
| Beecham Group | Wednesday | 4.1 | 5.0 | |
| BPB Industries | Wednesday | 2.5 | 3.5 | |
| Brengreen (Holdings) | Friday | 0.45 | 0.55 | |
| Brickhouse Dudley | Wednesday | 0.95 | 2.25 | |
| British Benzol | Friday | — | — | |
| Capital and Counties | Wednesday | 1.2 | 3.0 | |
| Castings | Thursday | 0.42 | 2.0 | |
| Century Oils Group | Tuesday | 1.0 | 2.4 | |
| Chamberlain Phipps | Monday | 1.1 | 2.2 | |
| Charter Consolidated | Tuesday | 3.75 | 7.25 | |
| Chloride Group | Friday | — | — | |
| Courtaulds | Tuesday | 1.0 | 2.25 | |
| Dawson International | Wednesday | 2.2 | 4.3 | |
| Cropper, James | Monday | 1.0 | 2.5 | |
| Dee Corporation | Thursday | 8.0 | 10.0 | |
| Diploma | Tuesday | 1.5 | — | |
| Dominion International | Monday | — | 2.0 | |
| Dreamland Electrical Appliances | Wednesday | 0.35 | 0.35 | |
| Estates and Agency Holdings | Tuesday | — | 2.0 | |
| Evans of Leeds | Tuesday | 1.25 | 1.375 | |
| Feedback | Thursday | 1.0 | 1.5 | |
| GB Papers | Monday | — | 1.5 | |
| Hargreaves Group | Thursday | 1.75 | 2.25 | |
| International Paint | Tuesday | 2.0 | 3.0 | |
| London and Overseas Freighters | Friday | — | — | |
| Marshalls Halifax | Monday | 1.0 | 5.0 | |
| M and G Second Dual Trust | Wednesday | 4.35 | 3.7 | |
| Pauls and Whites | Thursday | 2.5 | 5.5 | |
| Renolds | | | | |
| Rolfe and Nolan Computer Services | Wednesday | — | 2.75 | |
| Scapa Group | Thursday | 3.0 | 4.8 | |
| Security Centres Holdings | Wednesday | 0.75 | 1.1 | |
| 600 Group | Thursday | 2.34 | — | |
| Steinberg Group | Wednesday | — | 1.0 | |
| United Computer and Technology Hldgs. | Wednesday | — | 1.1 | |
| Warehouse Group | Monday | — | 3.125 | |
| Watson, R. Kelvin | Tuesday | 1.3 | 2.7 | |
| **INTERIM FIGURES** | | | | |
| Arbuthnot Government Securities | Wednesday | | | |
| Freshbake Foods Group | Wednesday | | | |
| Habitat Mothercare | Thursday | | | |
| Henderson Administration | Wednesday | | | |

* Dividends are shown net pence per share and are adjusted for any intervening scrip issue.

## COMPANY NEWS IN BRIEF

An increase of £111,000 to £388,000 in pre-tax profits is reported by Norton Opax, security printing and lottery ticket group, for the six months to September 30 1983. The company was formerly known as Norton and Wright Group.

The interim dividend is effectively raised from an adjusted 0.67p to 1p—last year a final of 1.5p was paid.

The directors say that, bearing in mind the seasonal nature of the business, the improvement in trading during the first half was "encouraging." They confirm the trading profit forecast of approximately £1.25m for the full year.

Group turnover for the first half was up from £3.71m to £4.51m. Tax took £170,000 (£130,000), and there was an extraordinary credit of £223,000 this time, leaving an attributable profit of £441,000 against £147,000. Earnings per 10p share improved from 1.74p to 2.59p.

★

Since the year end at C. H. Pearce & Sons, Mr G. T. Pearce, chairman, tells members in his annual report that the group has traded satisfactorily. While it is difficult to make forecasts in the present economic climate, he considers that the current year's profits should be not less than the £2.83m achieved for the year to the end of May 1983.

Fixed assets for the year were lower at £1.86m compared with £1.96m. Shareholders' funds moved ahead from £11.65m to £17.88m after a £4.4m revaluation surplus. Net current assets increased from £5.77m to £7.27m. There was an increase in working capital of £1.48m (decrease £2.05m).

Meeting: Bristol, December 14 at 12.30 pm.

★

In the year to October 31 1983 net revenue of the Fulcrum Investment Trust advanced from £120,570 to £123,645 and earnings per 25p income share are given as 5.15p, compared with 5.02p.

The second interim dividend in lieu of final is set at 2.9p net (2.65p) lifting the total for the year to 5p (4.5p).

Net asset value per 2.5p capital share is stated at 3.69p (2.9p) and per income share at 40.83p (40.68p). Investments were valued at £2.02m (£1.37m) at the year-end.

Gross revenue came to £253,405 (£196,235) and net revenue was struck after tax of £55,893 (£52,161).

★

London and Manchester Securities has issued 2m ordinary shares in satisfaction of the price of £300,000 payable on completion of its acquisition of an entitlement to 30 per cent of the surplus over borrowing and other costs arising on disposal of three properties at Hounslow, Grosvenor Crescent, London, SW1, and Bristol respectively. The company has also completed the purchase and on-sale of the Hounslow property at a price of £3.6m, receiving some £90,000 in respect of its 30 per cent interest in the surplus arising on disposal.

It is anticipated that London and Manchester will complete the purchase and on-sale of a further property at Kew on November 3, at which time it will receive an agreed payment of £350,000 and will issue a further 2,166,667 ordinary shares in satisfaction of £325,000 of the purchase consideration.

Of the first transaction Poda Holdings AG has a beneficial interest in 1.5m ordinary shares and all the second issue of 2,166,667 will be issued to that company which, with existing holdings, will result in an aggregate of 3,796,667 shares, equal to 14.3 per cent.

★

Nimslo Holdings, maker of three-dimensional cameras, has issued a correction to the share holdings announcement made on Monday. Fred Olsen Ltd holds 13.93m shares in Nimslo International and Nimslo Holdings has 21.07m shares.

★

THE FIRST interim figures from Woodchester Investments since going public on the USM in October show increased pre-tax profits of I£207,591 against I£129,911.

For the full year to the end of March 1984 the directors are forecasting pre-tax profits of not less than £480,000 against £272,000 in the last full year.

Funds of £1.89m raised from the placing completed on October 28, together with £1.5m of new banking facilities arranged since the half year end, will enable the company to accelerate the rate of expansion in profit growth. To this end the directors are investigating acquisition opportunities in related financial services areas.

Gross revenue increased from £352,015 to £794,432—the company is based in Dublin and is engaged in the rental of office equipment.

An interim dividend of 2p has already been announced.

There was a charge for tax this time of £13,868.

## CHIEF PRICE CHANGES ON FRIDAY

(Prices in pence unless otherwise indicated)

**RISES**

| | | |
|---|---|---|
| Baggeridge Brick | 125 | + 9 |
| Bio-Isolates | 125 | + 20 |
| Boustead | 103 | + 7 |
| Courtaulds | 113 | + 5 |
| Dawson Intl. | 173 | + 10 |
| De Vere Hotels | 365 | + 83 |
| Eagle Star | 653 | + 13 |
| Glaxo | 773 | + 21 |
| Hall (Matthew) | 228 | + 16 |
| Horizon Travel | 133 | + 8 |
| ICI | 612 | + 10 |
| Lucas Inds. | 153 | + 10 |
| Mercantile House | 389 | + 17 |
| Metal Box | 294 | + 8 |
| Northern Foods | 182 | + 12 |
| Utd. Scientific | 373 | + 20 |
| Vickers | 112 | + 7 |
| Atlantic Res. | 680 | + 25 |
| Shell Transport | 568 | + 10 |
| Eagle Corp. | 15 | + 2½ |
| Grootvlei | 873 | + 55 |
| Rustenburg Plat. | 750 | + 45 |

**FALLS**

| | | |
|---|---|---|
| Treasury 9½pc 199 | £98 | — ½ |
| Applied Computer | 483 | — 12 |
| Aspinall New | 158 | — 5 |
| Burnett & Hallams | 160 | — 8 |
| Peters (Michael) New | 95 | — 5 |
| Phoenix Props. & Fin. | 28 | — 7 |
| Reed Intl. | 360 | — 12 |
| Smith (W.H.) A | 132 | — 6 |

## MARKET HIGHLIGHTS OF THE WEEK

| | Price Friday | Change on week | 1983 High | 1983 Low | |
|---|---|---|---|---|---|
| F.T. Ind. Ord. Index | 734.5 | +15.1 | 740.4 | 598.4 | Wall St/technical influences |
| Akroyd and Smithers | 505† | −80 | 585 | 260 | Mercury terms disappoint |
| Atlantic Computers | 412 | +44 | 445 | 235 | Lion Systems acquisition |
| Barratt Developments | 172 | −12 | 274 | 166 | Disappointing start to year |
| Boots | 175 | +15 | 182 | 110 | Int. results above expectations |
| Burnett and Hallamshire | 160 | −15 | 457 | 160 | More than halved int. profits |
| Burton | 388 | +16 | 388 | 276 | Good results/scrip issue |
| Extel | 418 | +58 | 425 | 273 | Good interim results |
| Francis Parker | 49 | +9½ | 52 | 21 | Bid approach to major holder |
| Hinton (Amos) | 272 | +25 | 278 | 226½ | Own-brand cigarettes publicity |
| Johnson, Matthey | 228 | +23 | 340 | 198 | Int. results above expectations |
| Lucas Inds. | 153 | +20 | 175 | 124 | Recovery hopes |
| Meat Trade Suppliers | 88 | +19 | 88 | 66½ | Speculative demand |
| Metal Box | 294 | +24 | 294 | 154 | Good half-year figures |
| Oil and Gas Production | 55 | +14 | 55 | 34 | Bids invited for share cap. |
| Rohan | 175 | +25 | 180 | 125½ | Mid-East interests buy stake |
| Sun Oil (UK) Royalty | 155 | −130 | 370 | 55 | Rumours of dry well |
| United Leasing | 195 | +32 | 202 | 130 | Int. results due December 6 |
| Westland | 137 | −12 | 155 | 124 | Lynx helicopters grounded |
| Wolverhmptn Steam Laundry | 110 | +57 | 123 | 33 | Hopes of Shell operation |

† Based on suspension price

# Allianz decides today on Eagle Star offer

Allianz Versicherung AG, West Germany's largest insurer, will announce today whether it intends to top Britain's biggest ever takeover offer of £796m by BAT Industries, the tobacco group, for Eagle Star, one of Britain's leading insurance companies.

Allianz's closing date for its own £692m offer for Eagle Star, which is opposed by the Eagle Star board, was reached on Friday after being extended.

Today's statement will be published simultaneously in Munich and London, but so far there are no indications that Allianz will make an increased bid. Eagle Star has already recommended shareholders to accept the 575p per share offer from BAT.

All consents to the Allianz bid have now been given by the Department of Trade and Industry, the ultimate regulatory authority of the British insurance community. But the British Insurance Association, representing the insurance community in the UK, said on Friday that it had told the Government it has "grave misgivings" about the possible takeover of Eagle Star by Allianz.

The association feels that the Government should lay down some ground rules now to safeguard the rest of the industry from passing into foreign control. And it has reminded the Department of Trade that whereas Eagle Star has been powerless to resist Allianz from seizing control, the British company would never have been allowed to mount a similar bid from Allianz.

Mr John Howard, chairman of the association, said on Friday that no British insurance group should feel "smug" or safe. "We cannot really complain because we trade in all parts of the world ourselves."

When Allianz announces its plans today, BAT Industries will also make a statement.

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Chamberlain Phipps, James Cropper, Dominion International, G 2, Pepers, Marshalls Halifax, Warehouse Group.

Finals:—Cardiff Property, John Carr (Doncaster), J. H. Fenner, Gomme, Radio City (Sound of Merseyside).

FUTURE DATES

Interims:—

| | |
|---|---|
| Allied Plant | Nov 30 |
| Davenport's Brewery | Dec 1 |
| Dawson International | Nov 30 |
| General Electric | Dec 12 |
| Marling Industries | Dec 9 |

Finals:—

| | |
|---|---|
| Archimedes Investment Tst. | Dec 6 |
| Canvermoor | Dec 2 |
| Cooper (Frederick) | Dec 6 |
| Chapman Industries | Dec 13 |
| Dundee and London Invest. Tst. | Dec 1 |

# Wm. Grant to acquire Theakston's for £5.4m

William Grant and Sons, the "Glenfiddich" whisky distiller, is to make a £5.38m bid for T. and R. Theakston, the Yorkshire-based brewer of "Old Peculiar" beer.

The Theakston board split last month over an offer from Mr Michael Abrahams, a Yorkshire textile manufacturer, to buy 29 per cent of the group at 40p a share and underwrite a rights issue.

Some board members accepted this proposal, but others turned to Matthew Brown, the Lancashire brewer, which then agreed to buy a majority holding for 84p a share.

William Grant, a privately-owned company, is now offering 88p a per share for the existing shares in a bid worth £3.66m.

Grant has also offered to buy the authorised but unissued share capital at the same price for a further £1.72m. Grant said it would bring to Theakston its sales and marketing strengths and its financial backing. It plans to run the brewer as a separate company and maintain operations both at Masham, Yorkshire and Carlisle, Cumbria.

Grant made a pre-tax profit of £12.46m in 1982 on turnover of £63.6m.

# Vickers' sale in Southern Africa

VICKERS' SALE IN S. AFRICA Vickers, the Rolls-Royce car, defence and marine engineering group, has agreed the sale of Vickers Southern Africa (Pty) and its subsidiaries to the privately-owned Valard (Pty) engineering group of Johannesburg.

Vickers Southern Africa has a net asset value of £1.3m. Valard is owned by three Johannesburg businessmen, Mr D. R. Mokins, the managing director, Mr S. J. Nash and Mr S. J. Connelly.

This sale, which does not include the Howson-Algraphy Southern Africa (Pty) subsidiary, concludes Vickers' divestment programme in Southern Africa and is another step in the general restructuring of the group.

Vickers has sold its interests in Mexico, its fluid power and nuclear divisions in the UK and its interests in Vickers-Lenning in South Africa.

Newcastle-upon-Tyne city council has also agreed to buy Vickers' Elswick works for £900,000.

Vickers recently approved, in principle, a merger between Vickers Australia and Commonwealth Steel Company in Australia.

UK Company News for November 26 see Page 30

# Great Universal expects first half improvement

RESULTS for the first half of the current year at Great Universal Stores, catalogue and telephone shopping group, were expected to show an improvement over the £82.8m for the corresponding period in 1982, Sir Leonard Wolfson, chairman, told the annual meeting.

He pointed out that the group had an impressive property portfolio now in the course of revaluation, and at the same time the balance sheet demonstrated the strength of the group's liquid resources.

Sir Leonard added that in the current year the group was continuing to seek opportunities, at home and overseas, to expand major areas of business activity in both trading and financial services; "wherever there are reasonable prospects of a satisfactory return."

He told members that directors were aware of the continued need to improve further merchandising and marketing techniques, to streamline costs and to maximise cash flow.

The chairman said that the group was investing progressively in new technology, and had upgraded the computerised telephone ordering system to give a faster service.

The group was well advanced, he stated, in the application of more sophisticated systems for warehouses and offices to benefit productivity and profitability. And directors were planning to carry out an enhanced shop modernisation programme and expand the group's international Burberry Stores and export division.

## LEADERS AND LAGGARDS

Percentage changes since December 31, 1982, based on Thursday, November 24, 1983.

| | | | |
|---|---|---|---|
| Gold Mines Index | − 2.94 | Overseas Traders | +21.42 |
| Newspapers, Publishing | +65.09 | Food Retailing | +19.29 |
| Other Industrial Materials | +62.06 | All-Share Index | +18.42 |
| Shipping and Transport | +50.92 | Discount Houses | +16.85 |
| Chemicals | +49.12 | Mining Finance | +15.52 |
| Packaging and Paper | +47.32 | 500-Share Index | +15.26 |
| Motors | +45.57 | Industrial Group | +12.47 |
| Insurance Brokers | +40.25 | Consumer Group | +11.26 |
| Office Equipment | +40.20 | Health and H'sehold Products | +10.37 |
| Other Groups | +36.33 | Building Materials | + 9.79 |
| Insurance (Composite) | +36.33 | Stores | + 9.74 |
| Insurance (Life) | +33.97 | Metals and Metal Forming | + 9.31 |
| Other Consumer | +33.19 | Food Manufacturing | + 8.95 |
| Textiles | +32.86 | Capital Goods | + 4.49 |
| Oils | +31.97 | Tobaccos | + 2.26 |
| Financial Group | +30.98 | Mechanical Engineering | + 0.24 |
| Banks | +30.78 | Brewers and Distillers | − 0.21 |
| Investment Trusts | +26.67 | Engineering Contractors | − 3.96 |
| Leisure | +25.24 | Electricals | − 3.99 |
| Property | +22.66 | Contracting, Construction | − 7.58 |
| Insurance Brokers | +31.72 | | |

## FT Share Information

The following securities have been added to the Share Information Service:

A. & M. Hire (Section: Leisure).
Alfa-Laval (Industrials)
Egoli Consolidated Mines (Mines/Central Rand)
High Plains Oil Corpn. (Oil and Gas)
JWT Group Inc (Paper, Printing Advertising)
Mainmet Holdings (Industrials)
PCT Group (Industrials)
Thermal Scientific (Electricals)
Tottenham Hotspur (Leisure)

# A G Stanley pulls out of planned Jacoa merger

A. G. Stanley, the Fads paints and wallpaper group, has pulled out of its proposed merger with Jacoa, the Ripolin paints company, because of "differences of view as to future policy."

A merger, which had already been agreed in principle, would have created one of the largest home decorating chains in the UK with 420 stores.

Dealings in Stanley's shares, which were suspended at 48p in mid-September, are expected to resume today.

Jacoa is a private company formed two years ago when four directors of Ripolin, the British subsidiary of a French Government-owned group, staged a management buy-out.

Stanley is the larger company, but has been less profitable. Both were to become equal partners.

The two groups reached agreement in principle on September 16, subject to auditors' reports. Negotiations have been terminated before the exchange of these reports.

## SHARE STAKES

Adwest Group—At November 8 Lloyds Bank SF nominees held 1,036,500 ordinary (5.03 per cent). Beneficial owners of the shares are trustees of Lloyds Bank pension scheme.

Baltic Leasing Group — Mr Michael Goddard and his wife, Mrs Pierrette Goddard, sold 450,000 ordinary on November 18 at 253p, reducing their joint holding to 7.05m shares. On same date, Mr J. A. Clare sold 9,000 ordinary shares at same price, reducing his holding to 1,000 shares.

M. J. Gleeson (Contractors)—Prudential Corporation's interest in the company has been reduced from 640,000 ordinary shares (6.4 per cent) to 599,000 ordinary (5.99 per cent).

KCA International—Director I. C. Orr-Ewing has sold 35,000 ordinary.

Derek Crouch—100,000 ordinary shares have been purchased on behalf of trusts associated with Mr D. C. H. Crouch, chairman.

Myson Group — The London Trust sold 1m ordinary on November 10, reducing its holding to 3,293,014 shares (6.507 per cent).

## COMPANY NEWS IN BRIEF

A warning that full year profits at Thomas Locker (Holdings) may only be around £1.9m compared with £2.49m accompanies the interim statement.

First half pre-tax profits to September 30 1983 fell to £940,000 against £1.2m, and the directors say that group order books are currently standing at a lower level than at the same time last year. They add, provided economic conditions remain stable in the group's markets the profit for the second half should be similar to that earned in the opening six months.

Interim turnover of this company, with interests in screening and filtration engineering and wire weaving, was down at £12.54m, compared with £13.96m—turnover for the whole of last year was £27.12m.

Shareholders' interim dividend distribution is being held at 0.375p net. The earnings value for the 5p shares was 1.05p (1.28p). Last year's final payment was unchanged at 0.92p.

*

A small decline in pre-tax profits from £1.38m to £1.29m has been shown by Castlefield (Klang) Rubber Estate for the first half of 1983. Turnover fell from £3.69m to £3.42m, with £2.44m compared with £2.81m coming from oil palm produce.

The net final dividend of this associate of Harrisons and Crosfield has been held at 10p.

A special payment of 10p is also proposed which will lift the total to 24p (14p). Earnings per 10p share, before extraordinary credits of £436,142 this time, grew from 23.71p to 18.94p.

*

Higson's Brewery recorded an advance in full year pre-tax profits from £1.38m to £1.42m. Turnover for the 52 weeks to September 30 1983 amounted to £27.8m against £26.4m.

The taxable result was after interest paid of £205,000 (£118,000), but included investment income and interest received of £81,000 (£51,000) and profits, less losses, on asset disposals of £58,000 (£115,000).

The final dividend is raised from 2.9p to 3.05p lifting the total to 3.45p (3.3p). Earnings per 25p share are given as 15.4p (14.49p) after tax of £142,000 (£91,000).

*

For the year ended June 30 1983 the Killinghall (Rubber) Development Syndicate returned pre-tax profits of £152,967, compared with an adjusted £153,982. Turnover improved to £219,371 (£162,886) and operating profits advanced by £16,196 to £54,507. To this, investment income added £92,278 (£94,034) and the dividend from the associate £6,182 (£21,657).

Tax accounted for £130,689 (£57,862). There was a net extraordinary credit of £198,212. The dividend is being held at 10p net but a special 17.5p is also being paid.

*

Stroud Riley Drummond, the Bradford-based textile group, has has purchased Longbottoms (Sowerby Bridge) and their Dutch subsidiary, Krantz-Longbottom BV for a nominal consideration.

Longbottoms, a family company for nearly 200 years, operated a modern plant near Halifax manufacturing uniform fabrics. Over the last two years the compan yhas sustained small trading loses on a turnover of over £1m per annum.

*

ACCEPTANCES FOR the rights issue of 30.41m ordinary shares in Britannia Arrow Holdings have been received in respect of 26.87m shares (88.36 per cent of those offered). Shares not taken up have been sold for the benefit of shareholders and warrant holders.

*

James Fisher & Sons has reached agreement, subject to contract, with the joint receivers of the Melton Securities Group to acquire the assets at Mainsity Wharf, a commercial wharf with warehouses at Ellesmere Port, Cheshire. The cash consideration represents less than 5 per cent of the consolidated net assets of Fisher at December 31 1982.

**LADBROKE INDEX**
728-733 (+9)
Based on FT Index
Tel: 01-493 5261





## FINANCIAL TIMES STOCK INDICES

| | Nov. 25 | Nov. 24 | Nov. 23 | Nov. 22 | Nov. 21 | Nov. 18 | 1983 High | 1983 Low | Since Compilatn High | Since Compilatn Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs. | 82.96 | 83.10 | 83.19 | 83.46 | 83.25 | 83.15 | 83.70 | 77.00 | 127.4 | 49.18 |
| Fixed Interest | 86.04 | 86.01 | 86.07 | 86.17 | 86.00 | 85.77 | 86.17 | 79.08 | 150.4 | 50.53 |
| Industrial Ord | 735.5 | 705.8 | 724.4 | 725.7 | 718.8 | 721.4 | 740.4 | 598.4 | 740.4 | 40.4 |
| Gold Mines | 604.8 | 501.8 | 494.6 | 479.8 | 477.8 | 496.3 | 734.7 | 444.0 | 734.7 | 43.5 |
| FT-Act. All-Share | 458.65 | 452.65 | 452.56 | 455.50 | 451.92 | 452.16 | 465.74 | 382.22 | 465.74 | 51.92 |

## RECENT ISSUES

### EQUITIES

| Issue price | Amount paid up | Latest Renunc. date | 1983 High | 1983 Low | Stock | Closing price | + or − | Net Div. | Times Covered | Gross Yield | P.E. Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ¶120 | F.P. | 22/11 | 132 | 103 | ✱Acorn Computer 1p | 118 | ... | — | — | — | 28.1 |
| 115 | F.P. | 13/12 | 170 | 133 | ✱Aspinall Hldgs 10p | 158 | −5 | bg3.0 | 3.7 | 2.7 | 14.1 |
| ¶435 | 200 | 10/2 | 220 | 178 | Ent. Petroleum | 182 | +4 | 20.25 | 1.9 | 6.0 | 11.6 |
| 200 | F.P. | — | 260 | 105 | ††Bryson Oil & Gas 20p | 170 | −5 | — | — | — | — |
| ¶105 | F.P. | 22/10 | 108 | 107 | Coin Inds. 10p | 107 | ... | 3.3 | 3.4 | 4.4 | 13.3 |
| §60 | F.P. | 28/10 | 05 | 75 | ✱DJSecurityAl'ms10p | 77 | ... | t2.1 | b3.6 | 3.9 | 0.6 |
| §73 | F.P. | 16/12 | 87 | 78 | ✱Edinb'gh Fd.Man 5p | 87 | | bg1.8 | 2.8 | 3.0 | 17.0 |
| 97 | F.P. | 30/11 | 108 | 07 | Europ's Assets DFl. 1 | 108 | ... | ttQ10% | 1.0 | 2.1 | — |
| ‖ | F.P. | — | 305 | 290 | FAI Insurance 50 cts. | 000 | | Q34% | 4.0 | 3.6 | 7.1 |
| §54 | F.P. | 14/10 | 54 | 00 | ✱FederatedHousg 5p | 08 | | b2.40 | 2.4 | 0.7 | 8.7 |
| §IR77 | F.P. | 23/11 | 66 | 62 | ✱Flogas 10p | 64 | | uQ35.8% | 3.8 | 3.6 | 10.4 |
| 123 | F.P. | 16/10 | 127 | 112 | ✱FranchConnect'n5p | 126 | +3 | bd3.9 | 0.7 | 4.5 | 11.3 |
| §01 | F.P. | 23/11 | 01 | 80 | ✱Imtec Group 10p | 80 | ... | u2.1 | 2.5 | 3.8 | 12.1 |
| §45 | F.P. | 25/11 | 46 | 44 | ✱Laidlaw Group 10p | 46 | ... | b2.5 | 2.6 | 7.2 | 6.6 |
| ¶220 | F.P. | 12/2 | 263 | 226 | Logica 10p | 230 | +2 | u1.0 | 6.2 | 0.6 | 22.6 |
| §96 | F.P. | 10/1 | 101 | 97½ | ✱Mcbon 10p | 98 | −1 | b3.4 | 2.0 | 3.0 | 13.7 |
| ¶285 | F.P. | 23/11 | 310 | 293 | OxfordInstrumsts5p | 300 | −6 | b1.0 | 2.3 | 0.3 | 30.9 |
| §90 | F.P. | 16/12 | 100 | 27 | ✱Page Michael 5p | 109 | ... | 01.4 | 3.3 | 1.8 | 23.6 |
| §85 | F.P. | 01/12 | 105 | 06 | ✱Peters Michael | 03 | −5 | u1.79 | 1.7 | 2.7 | 26.0 |
| §86½ | F.P. | 6/1 | 29 | 27 | ✱Protimeter 5p | 28 | | u0.7 | 2.7 | 3.6 | 14.6 |
| 160 | F.P. | 11/11 | 234 | 214 | Telemetrix 5p | 232 | | 01.4 | 5.5 | 0.9 | 30.2 |
| ¶110 | F.P. | 16/12 | 131 | 108 | ✱V. W. Thermax | 123 | −2 | u5.25 | 1.8 | 6.1 | 15.7 |
| §IR84 | F.P. | 9/12 | 185 | 173 | ✱Woodchstrinv.IR20p | 173 | ... | Q12.5% | 4.1 | 1.7 | 15.0 |
| — | F.P. | — | 22 | 24 | Witan Invs.Wrrnts | 24 | ... | | | | |

### FIXED INTEREST STOCKS

| Issue price £ | Amount paid up | Latest Renunc. date | 1983 High | 1983 Low | Stock | Closing price | + or − |
|---|---|---|---|---|---|---|---|
| 99.296 | £25 | 20/11 | 20¾ | 02 | Allied Lyons 11¾% Deb 2009 | 28¾ | −¼ |
| 95.736 | £23 | 16/2 | 30⅛ | 26¾ | Australia 11⅛ pc. Ln. 2015 | 20⅞ | −¼ |
| 100 | £1P | 2/1 | 12 | 11⅛ | Bristol Waterworks 6.5% Red. Prf. 1988 | 10 | ..... |
| " | F.P. | 25/11 | 103 | 103 | Crosby Hse. 13¾pc. Ln. '87/90 | 103 | ..... |
| • | F.P. | 6/1 | 103p | 96p | Fisher (A.) 7% Cnv. Prf. | 105p | +7 |
| 99.714 | £30 | 25/4 | 32⅝ | 30 | Int. Bk. for Rec. & Dev. 11.5% Ln. 2003 | 31½ | −⅛ |
| 07.258 | £23 | 23/1 | 22½ | 23 | Ireland 12¼% 2008 | 28¼ | −½ |
| ¶100p | 35p | P/18 | 37½p | 03p | LASMO 9½% Cum Red Pref. | 37½p | +1 |
| " | £30 | 10/11 | 35½ | 30½ | Lon. Shop Prop. 9pc Cnv. 94/99 Ser II. | 33½ | +⅛ |
| $100 | £10 | — | 11¼ | 10¾ | Mid Kent Wtr. 10pc. Red Deb. 1003 | 10⅝ | −¼ |
| — | F.P. | — | 100⅝ | 99⅞ | Nationwide 10¼% Bds. 8/10/84 | 100⅛ | +⅛ |
| ‖ | F.P. | — | 100 | 100 | 10¼% Bds. 3/11/84 | 100¼ | −⅛ |
| 100 | £10 | 3/2 | 13 | 12 | Sund'ld + S.ShieldsWtr6½pcRPF. 1989 | 10 | |
| $100 | £10 | — | 11¼ | 10¾ | Tend. Hundred Wtr.12pcRed Deb 1988 | 10¾ | −⅛ |
| ¶02½ | £10 | — | 11⅛ | 11⅛ | West Kent Wtr. 6.25pc Red Pref.1988 | 11⅛ | .. .. |

### "RIGHTS" OFFERS

| Issue price | Amount paid up | Latest Renunc. date ● | Latest Renunc. date ■ | 1983 High | 1983 Low | Stock | Closing price | + or − |
|---|---|---|---|---|---|---|---|---|
| 7 | F.P. | — | 13/12 | 8 | 7¼ | Amal. Estates 3p | 8½ | ..... |
| £IR85 | F.P. | — | — | 61 | 42 | Aran Energy 20p | 30 | +1 |
| 58 | F.P. | — | 10/12 | 72 | 64 | Arrow Chemicals | 72 | ..... |
| 73 | F.P. | — | 24/11 | 82½ | 76½ | Britannia Arrow | 82 | +1 |
| 23 | F.P. | — | 30/11 | 27 | 24 | C. H. Industrials 10p | 27 | +1 |
| 82 | F.P. | — | 2/10 | 90 | 83 | Cartwright (R.) 10p | 90 | +2 |
| 02 | Nil | — | 13/1 | 3pm | 4pm | Charterhall 0p | 3pm | ..... |
| ¶310 | F.P. | — | 02/11 | 333 | 330 | F.& C. Enterprise Units 10p | 332 | ..... |
| 100 | Nil | — | — | 16pm | 10pm | Heywood Williams | 10pm | ..... |
| 12 | Nil | — | 30/11 | 1pm | — | ✱Humberside Elect. 10p | — | ..... |
| 30 | F.P. | — | 0/12 | 33 | 31 | ✱Inn Leisure 5p | 32 | ..... |
| 120 | F.P. | 7/11 | 2/12 | 156 | 127 | MFI Furniture 10p | 152 | ..... |
| 23 | Nil | — | 30/12 | 6pm | 3pm | Manson Fin. 20p | 5pm | ..... |
| 25 | Nil | — | — | 6pm | 4pm | Philcom 10p | 4pm | ..... |
| 05 | Nil | — | 10/1 | 2pm | 8pm | ✱Pineapple Dance 10p | 8pm | ..... |
| 14 | F.P. | — | 22/11 | 19½ | 10½ | Raine Inds. 10p | 18 | ..... |
| 85 | F.P. | — | 4/1 | 107 | 90 | Ward White | 102 | −1 |
| ‖ | — | — | 21/11 | 168 | 133 | Western Mining Options | 168 | ..... |

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. g Assumed dividend and yield. u Forecast dividend cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1983. H Dividend and yield based on prospectus or other official estimates for 1983-84. Q Gross. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. ◆ Figures or report awaited. § Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or take-over. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. † Effective issue price after scrip. † Formerly dealt in under special rule. †† Dealt in under Rule 163 (3). ✱ Unlisted Securities Market. °Comprising of 10 New ordinary plus 1 Series B Warrant.

## PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

| | Date | Announcement last year | | Date | Announcement last year |
|---|---|---|---|---|---|
| *Allied Lyons | Nov 29 | Interim 2.2 | *Lennone | Dec 8 | Interim 0.25 |
| Ansoc Leisure | Nov 30 | Interim 2.0 | Land Merchant Securities | Dec 16 | Interim 0.5 |
| Assoc Paper Industries | Dec 10 | Final 3.8 | *Marshalls Halifax | Nov 28 | Interim 1.0 |
| *Avon Rubber | Dec 7 | Final nil | *MEPC | Nov 30 | Final 0.25 |
| *BOC | Dec 8 | Final 3.14 | *Meyer International | Dec 13 | Interim 1.3 |
| *BPB Indus | Nov 30 | Interim 3.0 | Norcros | Dec 13 | Interim 2.08 |
| *Baker Perkins | Dec 12 | Interim 2.1 | *Northern Foods | Dec 14 | Final 3.75 |
| *Bass | Dec 8 | Final 7.44 | *Paula and Whites | Dec 1 | Interim 2.5 |
| *Beecham | Nov 30 | Interim 4.1 | *Peglar-Hattersley | Dec 7 | Interim 4.0 |
| *Brengreen | Dec 2 | Interim 0.5 | *Pilkington Bros | Dec 7 | Interim 5.0 |
| *Brown (Matthew) | Dec 5 | Final 5.55 | *Polly Peck | Dec 2 | Final 9.0 |
| *Capital and Counties | Nov 30 | Interim 1.2 | *RHM | Dec 0 | Final 2.333 |
| *Carless Capel | Dec 6 | Interim 1.0 | RHP | Dec 8 | Final 2.0 |
| Carr (J.) Doncaster | Nov 29 | Final 1.3 | Raybeck | Jan 7 | Interim due |
| *Charter Consolidated | Nov 29 | Interim 3.75 | Rediffusion | Nov 25 | Interim 1.25 |
| *Coalite | Dec 0 | Interim 1.55 | Renold | Nov 25 | Interim nil |
| Common Bros | Nov 22 | Final nil | *Royal Bank of Scotland | Dec 1 | Final 3.9 |
| *Courtaulds | Nov 29 | Interim 1.0 | Saatchi and Saatchi | Dec 9 | Final 5.2 |
| *Dewson International | Nov 30 | Interim 2.2 | *Scapa | Dec 1 | Interim 3.0 |
| *Dee Corpn | Dec 1 | Interim 6.0 | Scottish and Newcastle Brws | Dec 21 | Interim 1.5 |
| Distillers | Dec 16 | Interim 4.5 | *600 Group | Dec 1 | Interim 2.34 |
| Electronic Rentals | Jan 2 | Interim 1.1667 | Smith (W. H.) | Nov 17 | Interim 1.75 |
| *English China Clays | Dec 13 | Final 5.2 | Sterling Guarantee | Dec 8 | Interim 0.25 |
| Ferranti | Dec 0 | Interim 1.8 | Tecalemit | Dec 7 | Interim 0.8 |
| Fine Art Dove | Dec 1 | Interim 1.1 | Trafalgar House | Dec 8 | Final 3.7 |
| *GEC | Dec 12 | Interim 1.0 | *Unigate | Dec 15 | Interim 2.5 |
| Grand Metropolitan | Dec 20 | Final 4.875 | *Vaux Breweries | Dec 0 | Final 5.5 |
| GUS | Dec 8 | Interim 5.0 | Ward and Goldstone | Dec 10 | Interim 1.0 |
| *Greenall Whitley | Dec 0 | Final 1.986 | Wedgwood | Nov 25 | Interim 1.75 |
| *Habitat Mothercare | Dec 1 | Interim due | *Westland | Dec 14 | Final 4.75 |
| Hall (Matthew) | Dec 7 | Interim 1.195 | Wheeson | Dec 10 | Final 3.0 |
| Henson Trust | Dec 2 | Final 3.3 | Whitecroft | Dec 13 | Interim 1.4 |
| Haslemere Estates | Dec 16 | Interim 1.8 | *Wolverhampton & Dudley Brws | Dec 7 | Final 4.25 |
| *IC Gas | Dec 13 | Interim 3.0 | | | |
| Intasun Leisure | Dec 14 | Interim 1.4 | | | |
| *Int'l Paint | Nov 29 | Final 2.0 | | | |
| Johnson and Firth Brown | Dec 21 | Final nil | | | |

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

THE APPLICATION LISTS WILL OPEN AT 10.00 a.m. ON FRIDAY 2nd DECEMBER 1983 AND WILL CLOSE AT ANY TIME THEREAFTER ON THE SAME DATE. At any time before the announcement of the basis of allocation the Bank of England may agree with the underwriters that, by reason of a material adverse change in relevant conditions, this Offer for Sale should not proceed, in which event no allocations will be made and the underwriting agreement will terminate.

The whole of the issued ordinary share capital of Cable and Wireless plc ("Cable and Wireless" or "the Company"), including the Ordinary Shares now being offered, is listed on The Stock Exchange in London. The information given herein with regard to Cable and Wireless and its subsidiaries and associated companies ("the Cable and Wireless Group" or "the Group") has been supplied by its Directors. The Directors have taken all reasonable care to ensure that the facts stated herein relating to the Cable and Wireless Group are true and accurate in all material respects, and that there are no other material facts the omission of which would make misleading any statement herein, whether of fact or opinion, relating to the Cable and Wireless Group. All the Directors accept responsibility accordingly.

This Offer for Sale is made on the basis of English law, by which all contracts resulting from applications hereunder shall be governed. No person receiving in any territory outside the United Kingdom a copy of this Offer for Sale and/or an Application Form may treat the same as constituting an invitation to him, nor should he in any event use any such Application Form, unless in the relevant territory such an invitation could lawfully be made to him without compliance with any unfulfilled registration or other legal requirements.

No action has been or will be taken by the Lords Commissioners of Her Majesty's Treasury, the Bank of England, Kleinwort, Benson Limited ("Kleinwort Benson") or the Company which would permit a public offering of the Ordinary Shares now being offered or the distribution of this Offer for Sale and/or Application Forms in or from any country or jurisdiction outside the United Kingdom where action for that purpose is required. Accordingly, it is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required or the compliance with other necessary formalities, and to pay any transfer or other taxes required to be paid in such territory in respect of Ordinary Shares acquired by him under this Offer for Sale.

The Ordinary Shares now being offered have not been and will not be registered under the United States Securities Act of 1933 and may not be offered or sold, directly or indirectly, in the United States or to any United States person as part of the distribution of the Ordinary Shares now being offered. For these purposes "United States" means the United States of America and its territories and possessions and "United States person" means any national or resident of the United States and any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof.

# Cable and Wireless plc

*(incorporated in England in 1929 under the Companies Acts 1908 to 1917; registered no. 238525)*

# Offer for Sale by Tender

by

## The Governor and Company of the Bank of England

on behalf of

## The Lords Commissioners of Her Majesty's Treasury

in conjunction with

## Kleinwort, Benson Limited

of

## 100,000,000 Ordinary Shares of 50p each

**at a minimum tender price of 275p per share**

**(with provision for persons applying for no more than 1,000 shares to apply at the Striking Price)**

**Payable: On application .. .. .. .. .. .. .. 100p per share**
**By 3.00 p.m. on 17th February 1984 .. .. the balance of the purchase price**

**Court of Directors of Cable and Wireless**

Eric Sharp, C.B.E. *(Chairman and Chief Executive)*
David Berriman
Gordon C. Brunton
Douglas C. Buck
Richard W. Cannon
Joseph H. Crouch
Sir Patrick Meaney
Brian A. Pemberton
Ernest F. Potter
Philip J. Warwick
Alan E. Wheatley *(appointed by H. M. Government)*

**Secretary and Registered Office**
Richard E. McAlister,
Mercury House,
Theobalds Road,
London WC1X 8RX

**Solicitors to the Offer**
Freshfields

**Solicitors to the Underwriters**
Linklaters & Paines

**Solicitors to Cable and Wireless**
Speechly Bircham

**Auditors of Cable and Wireless**
Deloitte Haskins & Sells

***Registrars of Cable and Wireless***
National Westminster Bank PLC,
Registrar's Department,
PO Box No. 82,
37 Broad Street,
Bristol BS99 7NH

**Underwriters**

Kleinwort, Benson Limited · Baring Brothers & Co., Limited · Morgan Grenfell & Co. Limited · J. Henry Schroder Wagg & Co. Limited

**Brokers to the Offer**

Mullens & Co. · Cazenove & Co. · James Capel & Co. · Rowe & Pitman

## DETAILS OF THE OFFER FOR SALE

**Offer for Sale Statistics**

| | |
|---|---|
| Minimum tender price per share .. | 275p |
| Price earnings ratio at the minimum tender price based on earnings per Ordinary Share for the year to 31st March 1983 (adjusted for the September 1983 capitalisation issue) | |
| —on actual tax charge .. | 11.4 times |
| —on notional 52 per cent. tax charge .. | 16.4 times |
| Gross dividend yield at the minimum tender price based on the gross final dividend per Ordinary Share for the year to 31st March 1983 (adjusted for the September 1983 capitalisation issue) and the gross interim dividend per Ordinary Share for the year to 31st March 1984 .. | 3.0 per cent. |

*Note: If the Striking Price is higher than the minimum tender price, the price earnings ratios and the gross dividend yield will alter.*

**Introduction**

In November 1981 H.M. Government reduced its 100 per cent. holding in Cable and Wireless by means of a public offer for sale of 133,285,000 Ordinary Shares of 50p each. Following that offer for sale, and taking into account the shares committed at that time by H.M. Government to the Group's Employee Share Schemes, H.M. Government held just over 50 per cent. of the issued share capital of the Company. In March this year the Company issued 30,000,000 Ordinary Shares in connection with the purchase of shares in Hong Kong Telephone Company Limited, thus reducing H.M. Government's holding to just over 45 per cent. There was a 1 for 2 capitalisation issue in September 1983.

This Offer for Sale by H.M. Government will result in its holding being reduced to approximately 23 per cent. of the issued ordinary share capital. H.M. Government also holds the one Special Rights Preference Share, the principal rights of which are summarised in paragraph 1 of the section headed "General Information" overleaf. H.M. Government has no plans at this stage to sell any more of its present holding in Cable and Wireless and will not do so in the next two years.

H.M. Government has recently reaffirmed that it does not intend to use its rights as a shareholder to intervene in the Company's commercial decisions. Nor does it expect to vote its shareholding at general meetings of the Company in opposition to resolutions supported by a majority of the Court of Directors, although it retains the right to do so.

The issued Ordinary Shares of Cable and Wireless are fully paid and identical in all respects. The Ordinary Shares now being offered will be sold with the right to receive the interim dividend of 2.40p per share (3.43p gross) payable on 31st March 1984, which will be paid to the persons in whose names the shares now offered are first registered following the Offer for Sale. Unless otherwise announced in the press, payment of the interim dividend will be made in accordance with dividend mandates relating to holdings of Ordinary Shares in force on the date of payment.

**Procedure for Applications**

All shares for which applications are wholly or partly accepted will be sold at the same price (the "Striking Price"), which will be not less than the minimum tender price of 275p per share. The Striking Price may, however, be higher than the minimum tender price.

A person applying for not more than 1,000 shares may make either a Tender Application or a Striking Price Application. A Tender Application means an application at the minimum tender price of 275p per share or at any higher tender price per share which is a whole multiple of 1p chosen by the applicant. A Striking Price Application means an application under which the applicant does not have to decide at what price he should tender but will be deemed to have tendered at the Striking Price.

A person wishing to make a Striking Price Application must write the words "Striking Price" in the appropriate box on the Application Form.

A person applying for more than 1,000 shares must make a Tender Application.

All applications must be for a minimum of 100 shares and thereafter for multiples of shares as follows:

| Number of shares applied for | 100—500 | 500—2,000 | 2,000—10,000 | 10,000—20,000 | 20,000 and over |
|---|---|---|---|---|---|
| Must be in multiples of | 50 shares | 100 shares | 500 shares | 1,000 shares | 5,000 shares |

A person proposing to apply for shares who is in any doubt as to the course which he should take should consult his stockbroker, bank manager, solicitor, accountant or other professional adviser.

The purchase price is payable in two instalments. The first instalment of 100p per share is payable on application. The balance is payable by 3.00 p.m. on 17th February 1984.

A separate cheque or banker's draft for 100p per share, drawn in sterling on a bank in and payable in the United Kingdom, the Channel Islands or the Isle of Man, made payable to the Bank of England and crossed "Not Negotiable—C & W Shares", must accompany each application.

Applications must be made in accordance with the conditions set out herein and the instructions contained in the Application Forms. Tender Applications lodged without a price being stated will be deemed to have been made at the minimum tender price. All cheques are liable to be presented for payment, but presentation of cheques accompanying applications in respect of which no allocation of shares is expected to be made will be avoided as far as is practicable. Letters of Acceptance and cheques in respect of refundable application moneys may be retained pending clearance of applicants' cheques. The right is reserved to reject, in whole or in part, any application regardless of the price tendered or deemed to have been tendered. Furthermore, except as provided below under "Employee Applications", a person may not make:

(i) more than one Striking Price Application; or
(ii) both a Striking Price Application and a Tender Application; or
(iii) more than one Tender Application at the same price.

Accordingly, any multiple applications or suspected multiple applications (other than Tender Applications at different tender prices) are liable to be rejected or aggregated.

Applications, which will be irrevocable until 13th December 1983, must be made on the Application Forms provided and should be lodged by post or by hand so as to be received by 10.00 a.m. on Friday 2nd December 1983 with the appropriate Receiving Banker by reference to the initial letter of the (first-named) applicant's surname (or, in the case of a corporation, to the initial letter of its name) as follows:

A—H Barclays Bank PLC, New Issues Department, PO Box 123, Fleetway House, 25 Farringdon Street, London EC4A 4HD
I—T National Westminster Bank PLC, New Issues Department, PO Box 79, 2 Princes Street, London EC2P 2BD
U—Z Bank of England, New Issues, Watling Street, London EC4M 9AA.

Alternatively, applicants for whom it is more convenient to submit applications to a Receiving Banker in Scotland may lodge applications by post or by hand so as to be received by 10.00 a.m. on Friday 2nd December 1983 with:

Bank of Scotland, New Issues Department, 26A York Place, Edinburgh EH1 3EY.

Applicants may also lodge their applications by hand in envelopes addressed to the appropriate Receiving Banker and marked "C & W Shares" not later than 3.30 p.m. on Thursday 1st December 1983 at any of the following addresses:

**Aberdeen** Bank of Scotland, 53 Castle Street, Aberdeen
**Belfast** Allied Irish Banks Limited, 2 Royal Avenue, Belfast
Bank of Ireland, Registration Department, Moyne Buildings, 20 Callender Street, Belfast
Northern Bank Limited, Stock Exchange Services Department, Donegall Square West, Belfast
Ulster Bank Limited, Investment Section, 82-86 High Street, Belfast
**Birmingham** Bank of England, 55 Temple Row, Birmingham
**Bristol** Bank of England, Wine Street, Bristol
**Cardiff** National Westminster Bank PLC, 117 St. Mary Street, Cardiff
**Edinburgh** The Royal Bank of Scotland plc, 42 St. Andrew Square, Edinburgh
**Glasgow** Bank of England, 25 St. Vincent Place, Glasgow
Clydesdale Bank PLC, New Issue Department, 30 St. Vincent Place, Glasgow
**Leeds** Bank of England, King Street, Leeds
**Liverpool** Bank of England, 31 Castle Street, Liverpool
**Manchester** Bank of England, Faulkner Street, Manchester
**Newcastle** Bank of England, Pilgrim Street, Newcastle upon Tyne
**Southampton** Bank of England, 31-33 High Street, Southampton

**Employee Applications**

Special Application Forms are being made available to employees of Cable and Wireless and its United Kingdom registered subsidiaries engaged in and currently working in the United Kingdom, who may apply on such a form for up to 1,000 Ordinary Shares (subject to a minimum of 100 shares and thereafter in multiples as set out opposite) at the Striking Price. Such applications should be lodged by post or by hand with the Bank of England, New Issues, Watling Street, London EC4M 9AA so as to be received by 10.00 a.m. on Friday 2nd December 1983 (or lodged by hand by 3.30 p.m. on Thursday 1st December 1983 in envelopes addressed to the Bank of England, New Issues and marked "C & W Shares" at any of the addresses outside London at which public applications may be lodged) and will be accepted in full. Such an employee may also make a Striking Price Application or Tender Applications on public Application Forms.

**Striking Price and Basis of Allocation**

The Striking Price may be set above the minimum tender price if both:

(i) Tender Applications at or above the Striking Price have been received for at least half the Ordinary Shares now offered for sale; and
(ii) Tender Applications at or above the Striking Price, together with Striking Price Applications, are accepted in respect of all the Ordinary Shares now offered for sale.

In other circumstances the Striking Price will be the minimum tender price.

The Striking Price will not necessarily be the highest tender price at which sufficient Tender Applications, together with Striking Price Applications, are received in respect of all the Ordinary Shares now offered for sale.

Tender Applications at prices above the Striking Price and Striking Price Applications will be eligible for preferential consideration. The right is reserved to apply different bases of allocation to, and at differing levels of, Tender Applications and Striking Price Applications; this may involve no preference of allocation at particular levels.

Tender Applications at a price lower than the Striking Price will be rejected.

**Commission**

A commission of 0.3p per share will be paid to recognised banks and licensed institutions (within the meaning of the Banking Act 1979), to Trustee Savings Banks, to National Girobank and to members of The Stock Exchange on acceptances in respect of applications (other than special employee applications) bearing their stamp. However, no payment will be made to anyone who would receive total commissions of less than £10.

**Acceptances**

Letters of Acceptance, including instructions for payment of the final instalment, will be posted to successful applicants at their risk. If an application is not accepted, the amount paid will be returned in full and, if any application is accepted only in part, the surplus application moneys will be returned, in each case without interest, by cheque through the post at the applicant's risk.

Letters of Acceptance will be renounceable, in accordance with the instructions thereon and subject to due payment of the final instalment, until 3.00 p.m. on 2nd March 1984. Failure to make payment of the final instalment by 3.00 p.m. on the due date in accordance with the instructions in Letters of Acceptance will render the previous payment liable to forfeiture and the acceptance liable to cancellation. However, late payment of the final instalment may be accepted, in which event interest may be charged on a day-to-day basis on any overdue amount accepted at a rate equal to the London Inter-Bank Offered Rate for seven day deposits in sterling plus 1 per cent. per annum. Such rate will be determined by the Bank of England by reference to market quotations, on the due date for payment, obtained from such source or sources as the Bank of England shall consider appropriate.

The Stock Exchange is expected to authorise dealings to commence in partly paid form shortly after the basis of allocation is announced. Dealings prior to receipt of Letters of Acceptance will be at the applicant's risk. A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated or at all.

After expiry of the period of renunciation, shares represented by fully paid Letters of Acceptance will be registered in the names of those entitled thereto and share certificates will be despatched on 6th April 1984.

## ACTIVITIES OF CABLE AND WIRELESS

Cable and Wireless is a major international telecommunications operator, trading in over 60 countries and supplying a wide range of services and facilities.

The Group's principal business is the provision and operation of public telecommunications services in 38 countries, usually under franchises granted by the governments concerned and generally on a medium to long term basis. These franchises are held either directly or through joint ventures in which the relevant government is, in nearly all cases, also a participant. The services provided include telephone and telex, leased circuits, facsimile services and ship-to-shore communications. A fleet of five cableships is operated for the laying and maintenance of submarine cables.

The Group also conducts a non-carrier business, which includes project contracting and consultancy, equipment sales, leasing and maintenance and, in the United States, resale carrier services and least cost routing of long-distance telephone calls.

The Group's major operations in recent years have been in the Far East and South Pacific, the Middle East and the Caribbean. The geographical analysis of the Group's trading results (excluding its share of profits from associated companies) for the year to 31st March 1983 is as follows:

| | Turnover £m | Trading Profits £m |
|---|---|---|
| Far East and South Pacific | 158.1 | 60.1 |
| Middle East and Africa | 116.1 | 20.6 |
| Rest of the World | 129.1 | 26.8 |
| | 403.3 | 107.5 |

Cable and Wireless intends to continue the development worldwide of its carrier business, building on its branch network and cable systems and using the latest advances in radio and satellite technology. Whilst Hong Kong has been and remains an important location for the business of the Group, the Group's development strategy is aimed at a wider geographical spread of earnings in the medium to long term through expansion in the United States, the Far East and the United Kingdom, which are three areas which have been identified as having good growth prospects.

In the United States, which is the largest and most advanced telecommunications market in the world, the Group is embarking on the construction of a fibre-optic cable system in Texas using the rights-of-way of the Missouri-Kansas-Texas Railroad Company. This will provide digital transmission capacity of high quality at a low cost to large corporate users and to other telecommunications operators. The system, which will connect Dallas to Houston via Austin and San Antonio, will be operated as a joint venture with the railroad company. Negotiations are taking place with other railroad companies to establish similar cable systems.

In the Far East, the Group's acquisition earlier this year of a shareholding of almost 35 per cent. in Hong Kong Telephone Company Limited ("Telco") has given it a strategic position in Hong Kong's domestic telephone system which complements its international franchise operation and will better enable the Group to develop the growing market for telecommunications services in the region. Talks are currently taking place between the governments of the United Kingdom and the People's Republic of China ("China") on the future status of Hong Kong. During the last few years, the Group has entered into cooperative ventures with government authorities in China. These include two recently announced joint ventures, in which the Group has a 49 per cent. equity interest and an equal role in management with its government partners; the first is to provide telecommunications services to the offshore oil industry in the South China Sea and the second, which is for an initial period of twenty years, will provide local telephone services in Shenzhen, which is China's largest Special Economic Zone and borders Hong Kong.

In the United Kingdom, the Government's policy of introducing competition into the telecommunications industry, about which a further Ministerial statement was made on 17th November 1983, should result in opportunities for the Group in the provision of a public telecommunications network and value added network services and in the supply and maintenance of apparatus. The Group has a 40 per cent. equity stake in Mercury Communications Limited ("Mercury"), which is at present engaged in developing a public telecommunications network under a licence granted by H.M. Government. Since the issue of the Mercury licence, the development of the Mercury system has made progress; its ability to compete profitably will depend in part on the terms in which the current Telecommunications Bill is enacted, the subsequent regulation of the industry and interconnection of the Mercury network with that of British Telecom, so that any subscriber to one public telecommunication system should be able to call any subscriber to other public telecommunication systems.

## FINANCIAL AND OTHER INFORMATION ON THE CABLE AND WIRELESS GROUP

This section includes financial information relating to the Group prepared on the historical cost basis of accounting modified by the revaluation of certain land and buildings. The summarised information given in respect of the four financial years to 31st March 1982 and the six months to 30th September 1982 has been restated to accord with the accounting policies used for the year to 31st March 1983. The restatement incorporates, as appropriate, changes in accounting policy on foreign currency translation, associated companies and supplementary depreciation.

### 1. Consolidated profit and loss accounts

*The following is a summary based* upon the published audited consolidated profit and loss accounts of the Cable and Wireless Group for the five years to 31st March 1983 and the published unaudited interim results for the six months to 30th September 1982 and 1983, restated, where appropriate, to comply with the format prescribed by the Companies Act 1981:

| | Year to 31st March | | | | | 6 months to 30th September | |
|---|---|---|---|---|---|---|---|
| | 1979 £m | 1980 £m | 1981 £m | 1982 £m | 1983 £m | 1982 £m | 1983 £m |
| Turnover | 208.7 | 255.7 | 294.1 | 351.9 | 403.3 | 192 | 213 |
| Operating costs | 154.3 | 199.3 | 239.9 | 289.8 | 295.8 | 144 | 157 |
| Trading profit | 54.4 | 56.4 | 54.2 | 62.0 | 107.5 | 48 | 56 |
| Associated companies (Note i) | 2.5 | 3.1 | 3.7 | 8.0 | 21.8 | 8 | 14 |
| Interest and other income | 5.2 | 2.8 | 6.2 | 19.2 | 27.4 | 13 | 10 |
| Profit on ordinary activities before taxation | 62.1 | 62.3 | 64.1 | 89.2 | 156.7 | 69 | 80 |
| Taxation | 23.9 | 18.7 | 23.1 | 37.5 | 48.4 | 25 | 31 |
| Profit on ordinary activities after taxation | 38.2 | 43.6 | 41.0 | 51.7 | 108.8 | 44 | 49 |
| Minority interests | 0.1 | 0.2 | 0.4 | 6.7 | 10.8 | 6 | 5 |
| Profit attributable to ordinary shareholders | 38.1 | 43.4 | 40.6 | 45.0 | 97.7 | 38 | 44 |
| Extraordinary items (Note ii) | — | — | (68.0) | 56.4 | — | — | — |
| Profit/(Loss) for the period | 38.1 | 43.4 | (27.4) | 101.4 | 97.7 | 38 | 44 |
| Dividends | 7.5 | 10.5 | 12.5 | 17.8 | 23.8 | 9 | 11 |
| Profit/(Loss) retained | 30.6 | 32.9 | (39.9) | 83.6 | 74.1 | 29 | 33 |
| Earnings per Ordinary Share (Note iii) | 9.8p | 11.2p | 10.5p | 11.4p | 24.1p | 9.4p | 9.9p |
| *Net dividends per Ordinary Share* (Note iii) | 2.5p | 3.5p | 4.2p | 4.4p | 5.5p | 2.1p | 2.4p |

Notes: (i) Profits from associated companies of £14 million for the six months to 30th September 1983 include £3 million from Telco in respect of the three months from the date of acquisition to 30th June 1983. In the second six months of the Company's financial year, its share of profits from Telco for the period from 1st July to 31st December 1983 will be included.

(ii) The extraordinary items in 1981 and 1982 were in respect of the conversion of the Group's branches in Bahrain and Hong Kong into locally incorporated companies. The extraordinary item in 1981 was in respect of balancing charges on assets since transferred and the extraordinary item in 1982 was in respect of a surplus on sales of shares.

(iii) The figures for earnings and dividends per Ordinary Share for the five financial years to 31st March 1983 and the six months to 30th September 1982 have been adjusted appropriately to take account of subsequent share issues. Earnings and dividends per Ordinary Share for the six months to 30th September 1983 have been calculated on the 450 million Ordinary Shares currently in issue.

### 2. Source and application of funds

The following is a summary based on the published audited statements of source and application of funds of the Cable and Wireless Group for the five years to 31st March 1983:

| | 1979 £m | 1980 £m | 1981 £m | 1982 £m | 1983 £m |
|---|---|---|---|---|---|
| **Source of funds** | | | | | |
| *Profit before tax less minorities* | 62.0 | 62.1 | 63.7 | 82.5 | 146.1 |
| Depreciation and other non-cash items | 19.1 | 23.7 | 35.4 | 30.3 | 37.4 |
| Proceeds of disposal of interests in Hong Kong and Bahrain | — | — | — | 164.0 | — |
| Share issues | — | — | — | 35.0 | 117.5 |
| Other items | 4.3 | 13.9 | 6.0 | 14.8 | 13.3 |
| | 85.4 | 99.7 | 105.1 | 326.4 | 314.3 |
| **Application of funds** | | | | | |
| Dividends paid (Note) | 4.5 | 10.0 | 13.0 | 17.0 | 10.8 |
| Tax paid | 18.3 | 23.7 | 18.9 | 30.9 | 70.8 |
| Purchase of tangible fixed assets | 48.2 | 65.9 | 79.7 | 81.6 | 70.0 |
| Purchase of fixed asset investments (net) | (2.6) | 0.6 | 1.2 | 30.5 | 149.2 |
| Investment in finance leases | — | — | 0.5 | 81.1 | 40.2 |
| Increase/(decrease) in working capital | 11.5 | 6.4 | (0.9) | 10.2 | (2.5) |
| | 77.9 | 106.6 | 112.4 | 211.3 | 338.3 |
| Increase/(decrease) in net liquid funds | 7.5 | (6.9) | (7.3) | 115.1 | (24.0) |

Note: Dividends of £17.0 million paid in 1982 included the final dividend for 1981 and the interim dividend for 1982. Dividends of £10.8 million paid in 1983 represented solely the final dividend for 1982. The interim dividend of £8.8 million for 1983 was paid on 1st April 1983.

### 3. Statement of net assets

The following is a statement of the net assets of the Cable and Wireless Group at 31st March 1983 based upon the published audited consolidated balance sheet at that date:

| | £m |
|---|---|
| **Fixed assets** | |
| Tangible assets | 284.2 |
| Investments | 163.9 |
| | 448.1 |
| **Current assets** | |
| Stocks and long term contracts | 20.3 |
| Debtors | 264.4 |
| Investments | 13.7 |
| Short term deposits | 252.4 |
| Cash at bank and in hand | 25.3 |
| | 576.1 |
| **Current liabilities** | |
| Loans | 7.2 |
| Bank loans and overdrafts | 176.4 |
| Others | 191.6 |
| | 375.2 |
| Net current assets | 200.9 |
| Total assets less current liabilities | 649.0 |
| Loans, provisions and minorities | 121.8 |
| Net tangible assets attributable to shareholders | 527.2 |

### 4. Nature of financial information

The summarised financial information contained in this section does not amount to full accounts within the meaning of section 11 of the Companies Act 1981. Full accounts relating to each financial year from which the financial information has been derived have been delivered to the Registrar of Companies. Cable and Wireless' auditors have made a report under section 14 of the Companies Act 1967 in respect of each such set of accounts. The auditors' reports for the years to 31st March 1979 and 1980 were qualified because of the degree of uncertainty which then existed with regard to cost sharing under the Commonwealth Telecommunications Financial Arrangements. The uncertainty with regard to these arrangements did not lead to qualified reports in subsequent years. Accordingly, the auditors' reports for the years to 31st March 1981, 1982 and 1983 were unqualified within the meaning of section 43 of the Companies Act 1980.

### 5. Interim Report

A summary of the unaudited results for the six months to 30th September 1983, based upon the Interim Report published on 18th November 1983, is shown in *paragraph 1 of this section.*

The following is the text of the comment on the results which was contained in the Interim Report:

The pre-tax profit of £80 million (£69 million—1982) is an increase of 15 per cent. over the comparable period of last year. Turnover increased by 11 per cent. Trading profits including associated companies increased by 25 per cent. Traffic volumes originating at Group locations continued to increase at an overall average rate of almost 15 per cent.

Results expressed in sterling for a Group which has most of its activities overseas have been helped by current sterling exchange rates. The trading profit has increased over the comparable period of last year by some £2 million currency gain.

Investment continues in the US, the Far East and the UK. Telecommunications projects have characteristically extended periods before earning profits. The acquisition of almost 35 per cent. of the Hong Kong Telephone Company was partly financed with some £26 million cash. Lower cash balances and reduced interest rates have led to a reduction in interest income.

### 6. Factors affecting the Group

The business of the Group, like that of other major international companies, can be affected by economic and political events and other developments in any of the parts of the world in which it operates. As the great majority of its business is overseas, the Group's results expressed in sterling will continue to be highly sensitive to changes in exchange rates: profits expressed in sterling may be reduced disproportionately if the currencies in which the profits are earned are weak in relation to sterling, and vice versa. The net book value of the Group's investments overseas when expressed in sterling is also affected by movements in exchange rates.

The Group, like other telecommunications companies, is subject to governmental and regulatory controls in the countries in which it does business; in the United Kingdom the Company, as licensee of the Mercury telecommunication system, is subject to Government direction about the Mercury system. These arrangements will be replaced if the Telecommunications Bill which is currently before Parliament is enacted; it is envisaged that the Secretary of State will be empowered, in the interests of national security or international relations, to give directions to public telecommunications operators and approved contractors, which it is expected will include Cable and Wireless and Mercury.

The manifesto of the Labour Party for the last General Election, published in May 1983, declared an intention to renationalise public assets which had been denationalised, with compensation of no more than that received by the Government when the assets were denationalised. The manifesto also contained a reference to the desirability of British telecommunications, including Mercury, being under firm public control.

## GENERAL INFORMATION

### 1. Share capital and Articles of Association

The share capital of Cable and Wireless is as follows:

| | Authorised £ | Issued £ |
|---|---|---|
| Ordinary Shares of 50p each | 300,000,000 | 225,000,000 |
| Special Rights Preference Share of £1 | 1 | 1 |

Savo for the 1 for 2 capitalisation issue in September 1983 and as disclosed herein, the Company has not between 31st March 1983 and the date of this document made any issue of share or loan capital or granted any commissions, discounts, brokerages or other special terms in connection with the issue or sale of any share or loan capital of the Company.

The Group has recently established two employee share option schemes pursuant to which options have been granted to subscribe 3,040,553 Ordinary Shares. Save as disclosed herein, no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

*Following this Offer for Sale*, H.M. Government will hold 103,788,252 *Ordinary Shares*. H.M. *Government is committed,* under arrangements agreed in October 1981, subject to certain profit targets being *met*, to allocate a total of 1,286,251 Ordinary Shares to the trustees of the Group's Employee Share Schemes.

H.M. Government has the right to appoint two non-executive Directors, who have no special powers. Article 120 (B) of the Company's Articles of Association requires that the Chief Executive should be a British citizen.

The Special Rights Preference Share, which was issued to H.M. Government on 23rd November 1983, carries no rights to vote at general meetings but requires the prior written consent of H.M. Government for certain events such as an amendment to Articles 35 or 120 of the Company's Articles of Association, the voluntary winding up of the Company, a material disposal of assets or the creation or issue of shares with different voting rights from those of the Ordinary Shares.

Article 35 of the Company's Articles of Association provides that no person shall be entitled to hold shares representing more than 15 per cent. of the voting shares then in issue or, alone or with his associates, to exercise (or control the *exercise of*) *more than 15 per cent. of the votes which are* ordinarily exercisable on a poll at general meetings; for the purposes of the Article an "associate" of any person includes a company under that person's *effective* control or of which he is a director, persons with whom that person has any agreement or arrangement (whether legally binding or not) in relation to any voting share, trustees, settlors and beneficiaries of a trust where that person is a trustee and, where that person is a company, its directors and, in each case, all associates (as so defined) of any such associates. The Article gives the Directors powers to enforce the limitations, including powers to refuse to register transferees, to require information from any person (and to disenfranchise the shares concerned pending such information being given) and to require the transfer of any shares (and to effect a sale thereof themselves if necessary). The limitations do not apply to H.M. Government, a trustee of the Company's employee share schemes and (subject to a limited exception) SEPON Limited, and the definition of an "associate" does not include a person otherwise within the definition solely because he is a member or is acting in accordance with the recommendation of the British Insurance Association, the National Association of Pension Funds or bodies regarded by the Directors as similar.

### 2. Stock market quotations

The highest and lowest middle market quotations of Cable and Wireless Ordinary Shares for the periods specified below, based on information contained in The Stock Exchange Daily Official List but adjusted to take account of the capitalisation issue in September 1983, were as follows:

| 1982 | Highest p | Lowest p | 1983 | Highest p | Lowest p |
|---|---|---|---|---|---|
| Jan/March | 167 | 140 | Jan/March | 290 | 222 |
| April/June | 195 | 158 | April/June | 280 | 245 |
| July/Sept | 232 | 189 | July/Sept | 347 | 283 |
| Oct/Dec | 238 | 193 | Oct/23 Nov | 305 | 280 |

### 3. Interests of Directors

(i) The aggregate interests of the Directors in the Company's share capital, as shown in the Register maintained pursuant to the Companies Act 1967, amount to 60,433 *Ordinary Shares. The Directors hold options under the Group's* share option schemes to subscribe a total of 494,660 Ordinary Shares.

(ii) No Director is materially interested in any contract which is significant in relation to the Group's business.

### 4. Agreements

(i) An agreement dated 25th November 1983 between H.M. Treasury, the Bank of England, Kleinwort Benson, Cable and Wireless and its Directors and others contains provisions to facilitate this Offer for Sale and includes indemnities to Cable and Wireless and its Directors and others.

(ii) An agreement dated 25th November 1983 provides for the underwriting and sub-underwriting of this Offer for Sale in consideration of commissions totalling $1\frac{3}{4}$ per cent., plus VAT, of the aggregate value at the minimum tender price of the shares offered, out of which the underwriters will pay a sub-underwriting commission of $1\frac{1}{4}$ per cent. and fees to the brokers to this Offer for Sale. The underwriters and brokers will bear their own expenses, other than legal expenses. Subject as aforesaid, the expenses of this Offer for Sale, including United Kingdom stamp duty, will be paid by H.M. Treasury.

### 5. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Speechly Bircham, Bouverie House, 154 Fleet Street, London EC4 during usual business hours on any weekday (Saturdays excepted) up to and including Friday 2nd December 1983:

(i) the Memorandum and Articles of Association of Cable and Wireless;

(ii) the published audited consolidated accounts of Cable and Wireless for each of the two financial years to 31st March 1982 and 31st March 1983;

(iii) the published Interim Report of Cable and Wireless for the six months to 30th September 1983; and

(iv) the agreements referred to in paragraph 4 above.

**Copies of the 1983 Annual Report and Accounts of Cable and Wireless are obtainable (within the limit of available supplies) from the Secretary, Cable and Wireless plc, Mercury House, Theobalds Road, London WC1X 8RX.**

**Copies of this Offer for Sale and Application Forms may be obtained from:**

***Bank of England, New Issues, Watling Street, London EC4M 9AA,*** **the branches and the Glasgow Agency of the Bank of England**

**The head offices and main branches of:**

**Bank of Scotland, Barclays Bank PLC, Clydesdale Bank PLC, Co-operative Bank p.l.c., Coutts & Co., National Westminster Bank PLC, The Royal Bank of Scotland plc, Williams & Glyn's Bank plc, Yorkshire Bank PLC**

**The main United Kingdom branches of Allied Irish Banks Limited, Bank of Ireland, Northern Bank Limited and Ulster Bank Limited**

**The main branches of Trustee Savings Banks**

**Main Post Offices**

| The Underwriters: | The Brokers to the Offer: |
|---|---|
| Kleinwort, Benson Limited, 20 Fenchurch Street, London EC3 | Mullens & Co., 15 Moorgate, London EC2 |
| Baring Brothers & Co., Limited, 8 Bishopsgate, London EC2 | Cazenove & Co., 12 Tokenhouse Yard, London EC2 |
| Morgan Grenfell & Co. Limited, 23 Great Winchester Street, London EC2 | James Capel & Co., Winchester House, 100 Old Broad Street, London EC2 |
| J. Henry Schroder Wagg & Co. Limited, 120 Cheapside, London EC2 | Rowe & Pitman, City Gate House, 39/45 Finsbury Square, London EC2 |

**Examples of Amounts Payable on Application**

| No. of Shares | Amount £ | No. of Shares | Amount £ |
|---|---|---|---|
| 100 | 100 | 600 | 600 |
| 150 | 150 | 700 | 700 |
| 200 | 200 | 800 | 800 |
| 250 | 250 | 900 | 900 |
| 300 | 300 | 1,000 | 1,000 |
| 350 | 350 | 2,500 | 2,500 |
| 400 | 400 | 5,000 | 5,000 |
| 450 | 450 | 10,000 | 10,000 |
| 500 | 500 | *and so on in appropriate multiples* | |

**DATED 25th NOVEMBER 1983**

# Cable and Wireless plc

# Offer for Sale by Tender

by

**The Governor and Company of the Bank of England**

on behalf of

**The Lords Commissioners of Her Majesty's Treasury**

in conjunction with

**Kleinwort, Benson Limited**

of

## 100,000,000 Ordinary Shares of 50p each

*Closing prices November 25*

# NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 17¾ | 6½ | AAR | .44 | [illegible] | [illegible] | [illegible] | 14 | 14 | 14 | -⅛ |
| 52⅛ | 29½ | ACF | 1.40 | 2.7 | 443 | 135 | 51 | 50⅞ | 51 | |
| 15⅞ | 14¼ | AMF | .50 | 3.1 | | 456 | 15½ | 15¼ | 15¼ | -⅛ |
| 39½ | [illegible] | AMR Cp | | | 19 | 1061 | 36⅞ | 36½ | 36½ | -⅛ |
| 19½ | 15 | AMR | pf2.18 | 11. | | 65 | 19⅛ | 19 | 19 | |
| 40¼ | 24⅛ | AMR | pf2.13 | 5.5 | | 277 | 39½ | 39 | 39½ | |
| 15¾ | 3⅛ | APL | | | 23 | [illegible] | 15⅛ | [illegible] | 15⅛ | +⅛ |
| 55 | 31¼ | ARA | 2.26 | 4.2 | 11 | [illegible] | 51½ | 50¾ | 51 | -¼ |
| 59⅞ | 50⅛ | ASA | 3a | 5.8 | | 291 | 53½ | 52 | 53⅛ | +1½ |
| 30¼ | 12 | AVX | s .32 | 1.2 | 41 | 124 | 27 | 26 | 26½ | +1¼ |
| 43⅛ | 24⅛ | AbtLab | 1 | 2.2 | 17 | 1727 | 45⅛ | 44⅛ | 45 | -¼ |
| 30⅛ | 23⅛ | AccoW | n.60 | 2.2 | 23 | 2 | 27¼ | 27¼ | 27¼ | |
| 27½ | 16¼ | AcmeC | .40 | 1.6 | | 35 | 25¼ | 25 | 25 | -¼ |
| 14⅛ | 7⅛ | AcmeE | .32b | 3.1 | 513 | 23 | 10¼ | 10¼ | 10¼ | -¼ |
| 24⅞ | 8¼ | AdmDg | .04 | .2 | 16 | 12 | 21⅛ | 20⅞ | 21⅛ | +⅛ |
| 19⅝ | 15 | AdaEx | 1.73e | 9.4 | | 39 | 18½ | 18¼ | 18⅜ | -⅛ |
| 19¼ | 7⅛ | AdmMl | .24 | 1.5 | 9 | 20 | 15⅞ | 15½ | 15⅞ | +¼ |
| 19⅝ | 6⅛ | Advest | .12 | .9 | 9 | 47 | 14 | 13¾ | 13⅞ | -⅛ |
| 34⅛ | 10⅞ | AMD | s | | 57 | 712 | 33½ | 32½ | 33⅛ | +¼ |
| 24⅛ | 12⅞ | Aerflx | .4 | | 16 | 35 | 15⅜ | 14⅞ | 15⅛ | -⅛ |
| 45½ | 32⅞ | AetnLf | 2.64 | 7.2 | 9 | 567 | 36⅞ | 35⅞ | 36⅛ | -⅛ |
| 40½ | 22⅛ | Ahmns | 1.20 | 3.6 | 9 | 299 | 31⅞ | 31½ | 31¼ | +¼ |
| 7⅛ | 3⅛ | Aileen | | | | 12 | 4⅛ | 4¼ | 4⅛ | |
| 51 | 31 | AirPrd | 1 | 2.2 | 13 | 296 | 44½ | 44 | 44⅛ | +⅛ |
| 30½ | 13⅝ | AirbFrt | .60 | 2.0 | 25 | 241 | 30⅞ | 30⅛ | 30½ | -⅛ |
| 2½ | 1½ | AlMoa | s | | 23 | 63 | 2½ | 2⅛ | 2½ | +⅛ |
| 32½ | 29¼ | AlaP | pf3.92 | 13. | | 4 | 30¼ | 30½ | 30½ | +¼ |
| 7⅛ | 6½ | AlaP | dpf.87 | 12. | | 7 | 7⅛ | 7 | 7⅛ | +⅛ |
| 74½ | 65 | AlaP | pf 9 | 13. | | z440 | 69 | 69 | 69 | |
| 91½ | 68½ | AlaP | pf9.44 | 13. | | z100 | 72½ | 72½ | 72½ | -½ |
| 70 | 60 | AlaP | pf8.28 | 13. | | z20 | 64 | 64 | 64 | |
| 24½ | 15⅛ | Alagsco | 1.76 | 8.2 | 7 | 1 | 21½ | 21½ | 21½ | |
| 18⅝ | 9¼ | AlskAir | .15 | .8 | 11 | 57 | 14½ | 14⅛ | 14¼ | |
| 22⅛ | 13¼ | Alberto | .54 | 3.1 | 17 | 17 | 17⅞ | 17⅛ | 17⅛ | +⅛ |

Continued on Page 27

# NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

*Closing prices November 25*

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |

Continued on Page 28

# NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 26

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |
| | | WoodPt | .60 | 2.6 | 16 | z53 | 23¼ | 22¾ | 23¼ | +½ |
| | | Wolwth | 1.80 | 4.7 | 9 | 228 | 38⅝ | 38⅛ | 38⅜ | −⅛ |
| | | Wolw | pf2.20 | 4.1 | | 2 | 54 | 54 | 54 | |
| | | WrldAr | | | | 88 | 5¼ | 4⅞ | 5½ | +⅝ |
| | | Wrigly | 1.44a | 2.7 | 18 | 17 | 53⅞ | 53⅛ | 53⅛ | −⅝ |
| | | Wurlitzr | | | | 66 | 8⅝ | 8⅛ | 8⅝ | +⅛ |
| | | WyleLb | .24 | 1.0 | 192 | 35 | 23¼ | 23 | 23 | −⅛ |
| | | Wyly | | | | 53 | 11⅞ | 11⅛ | 11⅞ | +⅛ |
| | | Wynns | .60 | 2.9 | 18 | 15 | 20½ | 20⅛ | 20½ | +⅛ |
| | | **X-Y-Z** | | | | | | | | |
| | | Xerox | 2 | 6.1 | 11 | 4454 | 49⅛ | 48¾ | 49 | +½ |
| | | Xerox | pf5.45 | 11. | | 638 | 51⅛ | 50⅝ | 51 | +¼ |
| 37 | 18¼ | XTRA | | 1.8 | 33 | 354 | 36 | 35½ | 36¼ | −⅛ |
| 34 | 20¼ | ZaleCp | 1.28 | 3.8 | 19 | 51 | 32¾ | 32¾ | 32¾ | |
| 21⅞ | 14½ | Zapata | .84 | 5.1 | 7 | 292 | 16¼ | 16⅛ | 16⅛ | |
| 52¼ | 28¼ | Zayre | s .30 | .6 | 15 | 151 | 47 | 46 | 46⅞ | +⅛ |
| 34½ | 12½ | ZenithR | | | 39 | 490 | 33⅝ | 33¼ | 33½ | +⅜ |
| 38⅞ | 22¼ | Zero | s .46 | 1.4 | 21 | 5 | 35⅛ | 34¾ | 34¾ | |
| 37⅞ | 24¼ | Zurnin | 1.32 | 4.7 | 18 | 46 | 28⅛ | 28 | 28⅛ | +⅜ |

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

# WORLD STOCK MARKETS

## Indices

### NEW YORK

DOW JONES

| | Nov. 25 | Nov. 23 | Nov. 22 | Nov. 21 | Nov. 18 | Nov. 17 | 1983 High | 1983 Low | Since Cmpil'tn High | Since Cmpil'tn Low |
|---|---|---|---|---|---|---|---|---|---|---|
| ♦ Industr'ls | 1277.44 | 1255.91 | 1271.51 | 1256.20 | 1251.02 | 1254.85 | 1284.65 (18/10) | 1027.04 (3/1) | 1284.65 (10/10/83) | 41.22 (2/7/32) |
| H'me Bnds | 70.76 | 70.81 | 70.81 | 70.75 | 70.79 | 70.81 | 77.64 (5/5) | 69.85 (9/8) | — | — |
| Transport. | 610.12 | 607.53 | 612.57 | 609.46 | 606.04 | 599.95 | 612.57 (22/11) | 454.24 (3/1) | 612.57 (22/11/83) | 12.32 (8/7/32) |
| Utilities | 127.52 | 131.21 | 134.25 | 136.11 | 137.18 | 132.10 | 140.70 (19/4) | 119.51 (4/1) | 163.32 (20/4/69) | 10.5 (28/4/42) |
| TradingVol 000's | 57,670 | 108,050 | 117,550 | 87,740 | 85,290 | 80,140 | — | — | — | — |

♦ Day's high 1282.22 (1284.55) low 1266.80 (1235.04)

| | Nov. 18 | Nov. 11 | Nov. 4 | Year ago (Approx) |
|---|---|---|---|---|
| Indust'l div. yield % | 4.49 | 4.46 | 4.58 | 5.31 |

STANDARD AND POORS

| | Nov. 25 | Nov. 23 | Nov. 22 | Nov. 21 | Nov. 18 | Nov. 17 | 1983 High | 1983 Low | Since Cmpil'tn High | Since Cmpil'tn Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Indust'ls. | 187.58 | 187.73 | 187.46 | 186.72 | 185.66 | 186.97 | 194.84 (10/10) | 154.95 (3/1) | 194.84 (10/10/83) | 3.62 (30/6/32) |
| Comp's'te | 167.19 | 165.55 | 166.64 | 166.05 | 165.08 | 166.13 | 172.65 (10/10) | 138.34 (3/1) | 172.65 (10/10/83) | 4.40 (1/6/32) |

| | Nov. 16 | Nov. 9 | Nov. 2 | Year ago (Approx) |
|---|---|---|---|---|
| Indust'l div. yield % | 3.97 | 4.01 | 3.99 | 4.63 |
| Indust'l P E ratio | 14.57 | 14.18 | 14.24 | 10.12 |
| Long Gov. Bond yield | 11.61 | 11.76 | 11.80 | 10.41 |

N.Y.S.E. ALL COMMON

| Nov. 25 | Nov. 23 | Nov. 22 | Nov. 21 | 1983 High | 1983 Low |
|---|---|---|---|---|---|
| 95.55 | 96.40 | 96.53 | 95.92 | 99.63 (10/10) | 80.92 (24/1) |

Rises and Falls

| | Nov. 25 | Nov. 23 | Nov. 22 |
|---|---|---|---|
| Issues Traded | 1,861 | 2,008 | 2,011 |
| Rises | 852 | 805 | 992 |
| Falls | 600 | 805 | 650 |
| Unchanged | 419 | 399 | 363 |
| New Highs | 67 | 73 | 99 |
| New Lows | 11 | 31 | 32 |

MONTREAL

| | Nov. 25 | Nov. 24 | Nov. 23 | Nov. 22 | 1983 High | 1983 Low |
|---|---|---|---|---|---|---|
| Industrial | 440.95 | [illegible] | 456.95 | 455.48 | 486.90 (26/8) | 351.19 (4/1) |
| Combined | [illegible] | 420.91 | 420.54 | 419.60 | 441.29 (26/9) | 325.12 (4/1) |
| TORONTO Composite | 2491.4 | 2419.0 | 2475.4 | 2419.9 | 2598.3 (26/9) | 1949.8 (4/1) |

NEW YORK ACTIVE STOCKS

| Wednesday | Stocks traded | Closing price | Change on day |
|---|---|---|---|
| AT & T New | 8,315,600 | 19½ | −¼ |
| AT & T Old | 4,815,200 | 65¼ | −½ |
| Eastman Kodak | 3,541,600 | 74¼ | −1 |
| IBM | 1,790,900 | 120⅞ | −2½ |
| Middle S. Util. | 1,553,600 | 12¼ | −⅛ |
| Gulf Oil | 1,418,000 | 41⅞ | +¼ |
| Amer. Scot. WI | 1,331,100 | 9½ | −⅛ |
| Tele Prmo WI | 1,323,400 | 56⅞ | +½ |
| Mobil | 1,299,000 | 28⅝ | +⅜ |
| Lilco | 1,122,000 | 12⅞ | +⅛ |

| | Nov. 25 | Nov. 24 | Nov. 23 | Nov. 22 | 1983 High | 1983 Low |
|---|---|---|---|---|---|---|
| **AUSTRALIA** | | | | | | |
| All Ord. (1/1/80) | 738.4 | 736.2 | 722.2 | 717.5 | 735.4 (25/11) | 487.8 (4/1) |
| Metals & Mins. (1/1/80) | 640.1 | 630.4 | 616.8 | 610.1 | 614.2 (5/9) | 411.8 (4/1) |
| **AUSTRIA** | | | | | | |
| Credit Aktien (2/1/62) | 54.06 | 54.06 | 54.07 | 54.27 | 59.8 (5/5) | 48.48 (15/2) |
| **BELGIUM** | | | | | | |
| Belgian SE (31/12/63) | 125.89 | 125.44 | 125.85 | 128.73 | 134.45 (1/6) | 100.50 (4/1) |
| **DENMARK** | | | | | | |
| Copenhagen SE (1/1/83) | 195.76 | 194.96 | 193.90 | 191.06 | 204.22 (13/9) | 100.00 (3/1) |
| **FRANCE** | | | | | | |
| CAC General (31/12/82) | (u) | 148.7 | 147.5 | 145.5 | 148.7 (24/11) | 96.1 (3/1) |
| Ind Tendance (31/12/82) | (u) | 158.6 | 158.6 | 155.6 | 158.8 (28/11) | 98.8 (3/1) |
| **GERMANY** | | | | | | |
| FAZ Aktien (31/12/58) | 345.1 | 342.99 | 340.75 | 338.08 | 345.1 (25/11) | 241.89 (25/1) |
| Commerzbank (Dec 1953) | 1021.2 | 1019.5 | 1012.6 | 1008.8 | 1025.2 (25/11) | 727.3 (25/1) |
| **HONG KONG** | | | | | | |
| Hang Seng Bank (31/7/64) | 85.812 | 825.75 | 800.97 | 835.97 | 1102.84 (21/7) | 690.06 (4/10) |
| **ITALY** | | | | | | |
| Banca Comm Ital. (1972) | 193.08 | 191.96 | 184.34 | 182.48 | 214.93 (21/2) | 168.45 (18/11) |
| **JAPAN**** | | | | | | |
| Nikkei-Dow (16/5/49) | 9348.85 | 9573.64 | (c) | 9416.88 | 9598.75 (12/10) | 7803.18 (25/1) |
| Tokyo SE New (4/1/68) | 697.92 | 688.00 | (c) | 689.76 | 689.90 (7/10) | 574.51 (25/1) |
| **NETHERLANDS** | | | | | | |
| ANP CBS General (1970) | 145.2 | 142.3 | 141.5 | 140.8 | 144.8 (11/10) | 100.1 (4/1) |
| ANP-CBS Indust (1970) | 111.7 | 112.9 | 112.8 | 113.2 | 118.4 (16/10) | 83.5 (4/1) |
| **NORWAY** | | | | | | |
| Oslo SE (4/1/83) | 155.51 | 157.88 | 185.24 | 184.65 | 217.80 (19/10) | 99.01 (4/1) |
| **SINGAPORE** | | | | | | |
| Straits Times (1966) | 945.47 | 942.85 | 950.06 | 955.81 | 992.62 (25/8) | 712.29 (5/1) |
| **SOUTH AFRICA** | | | | | | |
| Gold (1958) | 757.6 | 750.6 | 757.1 | 726.8 | 1093.5 (1/2) | 661.4 (1/11) |
| Industrial (1958) | 892.0 | 891.5 | 895.6 | 895.5 | 909.7 (28/8) | 784.6 (5/1) |
| **SPAIN** | | | | | | |
| Madrid SE (31/12/82) | 124.75 | 124.37 | 124.48 | 125.50 | 120.14 (10/11) | 98.52 (11/1) |
| **SWEDEN** | | | | | | |
| Jacobson & P. (1/1/58) | 1472.46 | 1465.00 | 1467.46 | 1476.79 | 1629.00 (8/9) | 896.18 (5/1) |
| **SWITZERLAND** | | | | | | |
| Swiss Bank Cpn. (31/12/58) | 358.1 | 357.4 | 358.5 | 355.1 | 358.1 (25/11) | 284.4 (4/1) |
| **WORLD** | | | | | | |
| Capital Intl. (1/1/70) | — | 161.2 | 161.1 | 160.8 | 185.5 (10/10) | 154.1 (2/1) |

(**) Saturday Nov 19: Japan Nikkei-Dow 9,387.23, TSE 688.79.

Base values of all indices are 100 except Australia All Ordinary and Metals—500, NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrial. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.



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## International Arts Guide

The Financial Times International Edition publishes a comprehensive guide to all major artistic functions in Europe and North America every Friday.

The latest productions in the visual and performing arts are listed while Financial Times critics offer topical reviews of the most recent cinema premieres in London.

*The guide also appears in extended form daily with particular emphasis on music (Monday), opera and ballet (Tuesday), theatre (Wednesday) and exhibitions (Thursday).*

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# AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 27

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |



## AUSTRIA

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## BELGIUM/LUXEMBOURG

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## FRANCE

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## GERMANY

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## HONG KONG

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## JAPAN

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## SPAIN

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NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

FINANCIAL TIMES SURVEY
Monday November 28 1983

# BUILDING MANAGEMENT

## The client calls the tune now

**By IVO DAWNAY**

The fierce struggle for contracts over recent years has led to the development of a slimmer and much more strongly competitive industry. Much of the transformation is due to clients being able to press for increased efficiency in management structures

RADICAL CHANGE has not come easily to Britain's deeply conservative building industry. But there are now clear indications that the sustained downturn of recent years is forcing contractors and professionals alike to review attitudes considered until now to be unchangeable.

In part, the industry's resistance to change became entrenched in the complacency born of the prolonged growth enjoyed from reconstruction work in the 1950s through the sustained expansion of the 1960s boom years.

With demand outstripping capacity, it was too easy then to treat the contractor/client relationship like that of parent to an inquiring child. To the question, "Why do you do it like that?" came the less than satisfactory reply: "Because that is the way it is done!"

Today, all that has changed, and much of the transformation can be attributed to clients refusing to accept management structures which had evolved from centuries of traditional practice.

The foundations for the client's new influence were laid in the deep trough of recession that still dogs the industry. Hopes of an upturn in demand this year, expressed last spring, have now evaporated, and builders are aware more than ever that it is up to them to go out and create business.

According to the October report by Laing and Cruickshank, the City stockbrokers, weakness in the contracting and construction sector has been noted in the market with shares now substantially down compared with earlier in the year.

And while the private housebuilding sector has continued to grow rapidly (despite somo Cassandra-like warnings of a downturn next January), evidence of an improvement on a similar scale for private and public non-housebuilding activities has not emerged.

The last half-yearly forecasts by the Building and Civil Engineering Economic Development Councils suggest that public non-housing work will increase by 2 per cent to £1,795bn in 1984 (at 1975 prices) stabilising in 1985. But this slight upturn comes in the context of a £2.5bn figure a decade ago.

### Pessimistic

The Neddy forecasts are much more pessimistic about output for the private industrial and commercial sectors.

The property building boom has finally worked its way through with the 1982 peak of £1.52bn (1975 prices) expected to be sustained this year before again turning down to £1.4bn and £1.29bn in 1983 and 1984 respectively—two 8 per cent falls.

Laing and Cruickshank are slightly more optimistic for the industrial sector, pointing to two recent CBI surveys which note the influence of the improved consumer environment on companies' expectations of *further declines in building* investment.

The Neddy projections estimate current year output for the industrial sector to dip below the £1bn figure, to about £940m, with little change until 1985 when a 3 per cent rise is forecast—a depressing outlook when seen against the £1.4bn recorded in 1979.

While the upturn in the housebuilding sector — anticipated to clear a £1.6bn, or a 23 per cent, rise in the private sector this year—is some compensation for the industry, it has little bearing on the industry's management of industrial and commercial projects.

Such is the nature of the housebuilding sector, companies are in effect either their own clients, or work closely with the local authorities' building departments.

For the purposes of this survey it is the commercial and industrial sectors that must come under review, and it is here that the most stark changes in approach have emerged.

The reassessment has come in two ways. First, contractors have come to realise that if the market is no longer coming to them, they must go to the client. Second, the building industry's professional arms—the architecas, *quantity surveyors* and civil engineers—prompted, if not pressured, by the Government, are now allowing the first chinks of competitive light to escape from the door that is usually bolted against competition.

*In both cases, signs of a move* towards e more market-orientated approach to clients have been obvious for some time but it is only in the past 18 months that almost covert moves by a handful of progressive companies has turned into a small stampede.

For the contractors the principal objective has been to woo clients and in a way that still ensures there are profits to be made. In many sectors—most vividly, perhaps, renovation and maintenance—the scramble for work (if only to justify heavy overhead costs) has reduced margins to barely endurable levels, sometimes to below zero.

The alternative option has been to offer clients an altogether different kind of service.

The names of the new types of management services are as numerous as those attempting to define them but broadly the principle behind the new "packages" has been to offer clients a single source of managerial responsibility for a building project.

The various systems—project management, design and build, management contracting, management fee or construction management—all carry differing degrees of responsibility and liability. However, what they all aim to iron out is the kind of buck-passing between main contractor and subcontractor that has often delayed projects in the past and added to costs while leaving the client no clear view as to who is responsible.

As Mr Derek Hammond, senior partner of project managers APC International, puts it: "What clients want is a single bottom to kick."

The definitive guide, essential to both clients and builders alike, to the relative merits of new management systems against those of traditional build was published by the Building Economic Development Council this summer.

Faster Building for Industry (HMSO £12) draws on a detailed analysis of over 50 per cent building projects to assess shortcomings in the performance of British builders. The report points out that "the process of acquiring a new industrial building was often judged to be long, difficult and unpredictable, frequently jeopardising for the client the financial viability of his scheme.

### Key findings

"Each phase of the UK construction process compared *unfavourably with examples* taken not only from U.S. practice but also from the other European or Commonwealth countries," it said.

The key findings of the report were:

- The belief that speed costs money is unfounded—fast building is possible without sacrificing cost or quality;
- Experienced customers fared well while the inexperienced, dismayed at the complexity of the process, need advice that the industry traditionally has been poor at delivering;
- Traditional methods can give good results though, on average, non-traditional techniques tend to be quicker;
- Contractors should not be chosen only on the basis of price, but also skill, while the earliest possible recruitment of a contractor, before design is finalised, may produce cheaper and more buildable products;
- Ultimately, the attitudes of the parties—not the form of contract—determines speed. Standard contracts offer penalties for delays, but no incentives for swift completion. The industry and the customer should look for ways of sharing the beoefits of improved performance.

In fact, many companies now offer such benefits. The York-based Shepherd Group has this summer launched Maximum Cost Commitment, a system whereby design and build activities are complemented by a guaranteed price ceiling which, if undershot, allows the surplus funds to be shared between the parties.

A similar system is being strongly marketed by IDC at Stratford-on-Avon.

Such is the difficulty of defining the new systems, no figures exist for the proportion of building work now being completed under non-traditional means.

Mr Bill Martin, director of Wimpey's strongly MC-orientated special projects division, guesses that between 5 and 10 per cent of all factory and commercial work is now undertaken this way, a 500 per cent growth rate in 5 years.

"It could go up to possibly 30 or even 50 per cent," within the next few years he says, "but no one would argue that it is going to replace traditional build."

Much of this growth will inevitably be client-led. The Winchester-based builder and steel fabricator, Conder, for example, has found that their "Kingsworthy" system, a fast-build dry envelope design which allows clients to tender internal work independently, has led many customers to insist that the company supervise the complete project.

For the professions, the trend away from traditional build has come at a difficult time. Architects have already been forced by Government pressure to dispense with non-competitive fee scale systems, and similar actioo is expected shortly against coosulting engineers, the Property Services Ageocy and the Department of Health are expected this autumo to insist on e level of "tendering" by professionals for Government contracts.

### Increasing inroads

Quantity surveyors also are suffering, with oew technology making increasing inroads into their traditional work.

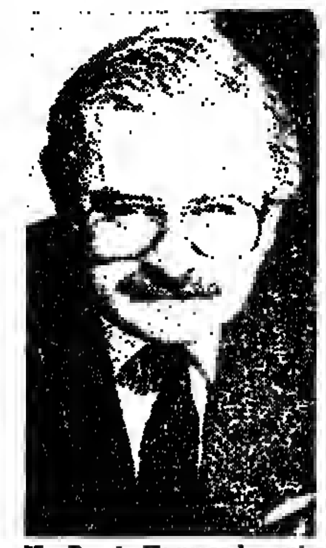
Consequently, the non-traditional build systems are pushing the professions to the unpleasant realisation that the recessionary climate may force them to collaborate or collapse.

Mr Patrick Harrison, secretary to the Royal Institute of British Architects, acknowledges that changes in the relationships between the professional and the contractors are inevitable, though he insists that it is still the architects who have the clients' interests most at heart.

New RIBA rule changes which allow architects to become directors of companies do, however, signal the way the world is moving. "Architects are beginning to work in a more entrepreneurial way," he says, "and there has got to be closer interaction between the various elemeots of the *building* team over the next 10 years.

He adds: "If erchitects play it intelligently, they will be eble to sell more of their services. It offers a tremendous opportunity to colonise new territory."

*Many colonial wars are set to* dominate the building managemeot scene over the medium term. But whatever alliances are hammered out, it looks as if, perhaps for the first time, the client will at last be the overall victor.



Mr Derek Hammood, senior partner of project managers APC International: What clients want is a single bottom to kick

CONTENTS



Editorial production: Arthur Dawson

Design: Philip Hunt

# Quantity surveyors acquire financial muscle

THERE IS no doubt that the building professionals have to be seen in a new light with the development of the total project approach to both major and minor contracts. Curiously, the growth of the idea of total project management has grown from the feeling of intense frustration that arose from the confused roles of the independent professions involved in the building business.

It is the architect who has traditionally, as the chief designer, assumed total responsibility for the whole of any building project. It has been the architect who initiates the contact with the client, designs a building for him, organises the construction teams and also manages the whole project.

This is now not a very satisfactory state of affairs. What likelihood is there of a man trained as an architect, because of his design skills, also possessing the necessary management skills to supervise a major building contract?

Many of the traditional roles of the architect have been assumed by the newer professions of surveyors — sometimes causing architects to lament the loss of their traditional role.

Both architects and surveyors are now free to advertise their services. Both professions have gone through radical changes in the last two years. Architects can now become directors of building companies, their wish to control their own fee scale has been overruled by the Government, and competition is the order of the day.

It is the profession of the quantity surveyor that has developed in the most marked way—his training seems to fit him particularly well for the wider role of construction management—a field once presided over by architects.

In the quantity surveying field more emphasis is now being placed on the financial functions—and this is where the power lies. Surveyors, in the past, had a fairly precise measuring role—today when clients are more demanding in an inflationary world the QS has become the expert in the financial management of building procurement.

Surveyors too have developed into newer fields of activity particularly major civil engineering works and the specialised areas like petro-chemical engineering.

## Complexity

It is the growing complexity of the building process that has in some cases isolated architects from the newer technologies. Only the largest and most sophisticated architectural practices are able to keep up to date with, for example, computer techniques. Computers have played into the hands of the surveyor—because a large part of their professional expertise consists of the control and understanding of large amounts of data.

There is no doubt that the construction industry is as much a "marketplace" activity as any other business and professional isolationism is the recipe for bankruptcy. The recession has caused a reduced workload for every individual part of the construction process and the professions with their tender-linked fee incomes have suffered as much as anyone.

With rising operating costs the building professions have sought to remove the restrictions that have hampered free competition—some would argue that the very idea of impartial professionalism has vanished for ever. Architects and surveyors now actively promote themselves to seek work—and the competition has really only just begun.

The relaxation of advertising controls is directly linked to the freeing of the fee scales in response to the Monopolies and *Mergers Commission*.

In the allied world of civil engineering that profession has had to adapt and survive under the new economic conditions. It is now quite common for an engineering firm to take on a wider range of building work—and to act less frequently as just a consultant.

Commercial refurbishment has been a field that architects would normally have had under their control—but it is engineering companies that are better equipped to renew services and update the technology—particularly in commercial office premises.

One building company (Osborne of Chichester) is providing package tailor-made buildings for indoor sports facilities, especially bowling greens. This sort of entrepreneurial skill cuts right across all the divisions of the building industry.

In the larger international construction field the clients are likely to be offshore based multi-nationals who are going to be looking for competitive tenders. It is a known fact that construction costs are higher and the length of contract tends to be longer in the UK than in other European countries, as well as being above those in the U.S.

This means that professional divisions are not going to help promote the British construction process abroad. This is where the project management teams that understand the whole construction process are making headway. Such a firm needs to have in-house all the essential disciplines — primary ones being: project management, cost control, electrical and mechanical services, and energy conservation.

*The architect is limited by the* new profession of total project management to design and the assembly of components and an understanding of the economics of the construction process. Today his design skills are not considered enough *for him* to assume the leadership of a large project.

Firms like APC International combine the expertise of the chartered surveyor and the independent project manager and fit the design profession under the umbrella of the coordinated construction programme. Within a group like APC, there is often an independent project management wing to initiate projects with property advice and feasibility studies.

## Blurred edges

There is a need for the detailed understanding of the current planning legislation — another example of the blurring at the edges of the professional disciplines. Planners' skills touch every aspect at the early stage of a building project and there is a need for more architect-planners.

Although it is clearly in the larger new building contracts that there is a need for less rigid professional divisions this need is also apparent in the growing market for rehabilitation projects.

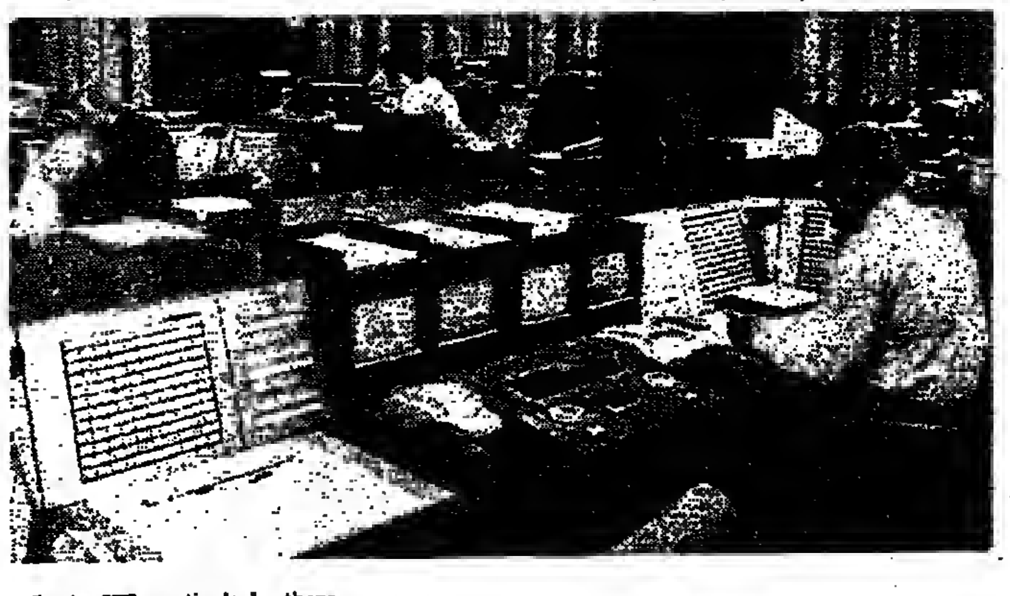
In the UK, particularly, there is a stock of old and inefficient buildings—particularly in inner city areas. Some contractors have experienced a growth of demand for rehabilitation work to the extent that some have nearly 40 per cent of their tenders out in this field.

There is need here for an end to demarcations between the professions. Because the work tends to be labour intensive and does not lend itself to mechanisation there is particular need for the introduction of a coordinated management element to handle the planning, technical and social liaison problems of work in older buildings in the inner cities.

In the rapidly changing construction world the most urgent demand is for all the professions to recognise the need for continuing education — refresher courses and post qualification education.

Multi-disciplinary research is also much under funded at the moment. The key words for the development of a profitable construction industry that includes all the major professions, planners, surveyors, architects and engineers—are continuing professional development. It is a rapidly changing world where ivory towered professionalism has no place.

**Colin Amery**



## Cornhill project

The former dealing room at the Union Discount Company's City offices in Cornhill (left). Trollope & Colls Management has been appointed project manager to co-ordinate alterations, which include an extension to the dealing floor and provision for two new computer suites. Mr A. L. Runnicles, director of Trollope & Colls Management, explained that the management structure involved the concept of single point responsibility whereby one person was responsible for design and construction.



# Thorny problems for new form of contract

WITHIN THE next year or so a new Form of Contract will emerge from the Joint Cootracts Tribunal which aims to provide a standard legal and contractual basis for the work carried out hy that section of the construction industry operating uoder the vague title "management cootractor."

At the moment any clieot looking towards management contracting as the solntion to his need for a new huilding is faced with a wide array of alternative contractual agreements, usually drawn up by cootractors themselves and modified to some exteot by the client's advisors.

But there ore those who beleve that the new form of contract stands little chance of becoming the management contractors' bible, simply because of its almost predictable inability to reconcile the client's needs with the commercial ambitions of the contractors. And because a major element of the esseoce of managemeot contracting is the specialist sub-cootractor—wbo will continue to bave no contract with the client—there is a belief that tha new JCT form will contain distinct limitations.

The changes over the past decade in the means available to o client for bringing his proposed investmeot to fruition represeot a quiet revolntion in the construction business.

Spurred *on* by the *examples* set in North America, and the obvious need to get out of the non-productive reputation the industry had 10 years ago, a number of construction companies started to step out of the normal run of things and introduce new methods of bringing buildings into existence — ostensibly with the aim of meeting the prime criteria of completion to time and to budget.

Such criteria need to be uppermost in any new form of contract since the client, who is footing the bill, is entitled to a sound deal which gives him an exact knowledge of how much tha building will cost—to the penny—and when it will be completed.

The new form of contract now being devised by the JCT has this in mind but no matter how well it is written the standard form can never guarantee that the client will not have to dig deeper into his pocket or, to take an extrema example, find alternative premises in which to manufacture his product while the contractor finishes the building.

## Worrying elements

One of the worrying elements in management contracting is pinpointed by Geoffrey Trickey, a leading voice in the quantity surveying profession and o senior partner in one of the country's best-respected practices:

"Take damages for failing to complete oo time. Often the managing contractor's liabilities to the client are limited to what be can obtain from defaulting sub-contractors. They argue that if they refuse to pay damages to the managing contractor be need pay nothing to the client, so there is no loss to pay for.

"As there is no contract between client and sub-contractor, the existence of the management contractor has acted as an absolute barrier to the client's entitlement.

"The same may be said about price; the existence of the management cootractor detracts from the commitment that the client ought to be ahle to expect. Certainly, construction work—as opposed to site management—will be sub-let, usnally in competition.

"But the terms of the sub-contract will inevitably contain the same grounds for price escalation as prevail in traditional lump sum contracts. And management contractors often seek to use extremely harsh forms of sub-contract; this eases their management burden but increases sub-contract prices ultimately paid by the poor old client."

Despite his reputation as an oppooent of the system, Mr Trickey hopes that the JCT will be able to remove some of the more unsavoury aspects of management contracting.

There are two lists, says Mr Trickey, which ought to form the basis of what a management contract means. First, the oeed for certain principles which any "standard" form of contract should embody.

**THE NEW JCT Form of Contract for Management Contracting has been in the course of preparation for several years and has recently been circulated among its constituent bodies for approval and amendment. These bodies are:**

**Royal Institute of British Architects; National Federation of Building Trades Employers; Royal Institute of Chartered Surveyors; Association of County Councils; Association of Metropolitan Authorities; Association of District Councils; Greater London Council; Committee of Associations of Specialist Engineering Contractors (Casec); Federation of Associations of Specialists and Subcontractors (Fass); Association of Consulting Engineers; Scottish Building Contract Committee; British Property Federation.***

*** *A comparative newcomer to the Tribunal and the only representative of the clients' side as far as the private sector is concerned.***

- To lay down and establish bow the sub-contracts should be let—in particular, by wbom are tender lists drawn up;
- Wherever possible, encourage lump sums to cover site management or at least establish a precise definition of what prime cost the managemeot contractor is to be paid and exclude from it all costs arising from his default;
- Establish a definition of the word "fee" and make sure it expressly covers all costs not specifically referred to elsewhere. "It is impossible to imagine all the peripheral costs that will arise on a building contract and such costs should be at the risk of the contractor and not the client," be explains.
- Find a device for making the management cootractor fully responsible for failures in time, price or standards of his sub-contractors.

He then gives his list of six criteria that need to be included in any building contract; mindful of his position as the client's advisor and the contractor's opposite number, be points out that the employer's views on the relative importance of each must be ascertained before a contract can be tailored to his needs.

- A commitment to time;
- A commitment to price;
- Economy of time;
- Economy of price;
- Efficiency of the building in use;
- Proper standards of moterials and workmanship.

A firm which noticed this need several years ago, refined the concept considerably and now finds itself heing copied hy later exponents of management systems is IDC of Stratford-upon-Avon.

IDC introduced the concept of Guaranteed Maximum Price — the company is also widely regarded as the founder of the Design and Build system in the UK. GMP also started life as a solution to a perceived need by clients, particularly in the private sector.

Deputy chief executive Len Whitting shares Geoffrey Trickey's appreciation of the importance of some form of contract for "management contractors"; he adds that the term has come to mean anything which is a departure from what used to be regarded as the traditional way of carrying ont a contract, and he shares the view that a standard form might conceivably act against the interests of those who commission buildings—the same people who keeps his firm in business.

IDC's system goes a long way towards eliminating doubts; a client choosing to opproach tha company to erect a building on the GMP method will benefit from a series of negotiations which constantly refine the design and pricing process until a maximum cost—and a finite construction programme — are arrived at. The client can still say no to IDC's proposals, at which stage he pulls out.

Shonld he carry on—and Mr Whitting says that the majority of firms going this far down the line do carry on—he knows that while be will get the benefit of any financial savings made in bringing a scheme to completion he will not have to pay a penny for cost over-runs.

He, too, bnpes the new JCT form of contract will help the average client. He, too, has o list of facts which onght to be considered if the client is not to take sole responsibility for the management of a long-term risk which any construction programme represents.

As things stand at the moment, he says, management contractors benefit from five contractual shortcomings:

- Project costs are not known until after the works are complete;
- There is little or no incentive for costs to be kept to a minimum;
- The employer is often asked to indemnify the management cootractor against losses resulting from sub-contractor's failures;
- Cootractors have little or oo influence over alternative designs;
- The penalties for failing to complete within budget or programme are usually passed to sub-contractors at a cost to the employer—the contractor does not have to bear any penalty which rednces his fee.

## Difficulty

Mr Whitting identifies another thorny question which the JCT may have some difficulty resolving before its final version of the new form of contract emerges:

He asks: "How can an employer penalise a management contractor for overrunning a preliminary budget, which the management contractor may *not* be party to, based on preliminary and incomplete drawings and specifications which will be developed and completed during the course of construction by consultants over whom the management contractor has no control?

"The inescapable fact is that the employer who chooses to overlap the distinct contractual responsibilities of designer and constructor cannot have the advantages of a guaranteed price which can only be varied as a result of changes or delays caused by the employer alone."

Like Mr Trickey, Len Whitting puts a sting in the tail of his opinion of the new wave among contractors.

"One can understand an employer looking for something better, but is management contracting or costs-plus better? Obviously, it is better for the contractor—he cannot lose, a fact which is eormously comforting to a industry which has the *highest rate* of bankruptcies in the UK.

"It can also make life a lot easier for designers who might otherwise be under considerable pressure from a claims-conscious main contractor.

"Construction management may be an easy way out for employer, consultant and contractor; but it is likely to cost more and the employer will end up paying the extra bill."

**Paul O'Farrell**

## BUILDING MANAGEMENT III

**Mira Bar-Hillel** looks at the new ideas in building techniques and systems

# Developments in nearly every sphere

SYSTEM BUILDING has almost become, like "redevelopment" was ten years ago, a bad word. Conspicuous failures of various building systems of yesteryear, mainly in the housing field, have been well-documented and featured in many emotive and media stories.

Bison Wallframe has been blamed not only for water penetration and cladding problems but for the social unacceptability of much of the public housing of the 1960s; Airey houses would have never hit the headlines were it not for the right to buy.

Most recently, timber frame has been tarred with the same brush by its opponents, although there could be no more different "systems" than the heavy concrete ones of 20 years ago and the light, engineered timber systems some private sector housebuilders swear by today.

### Saving time

In fact, it has always been in the non-residential sector that designers and developers have sought to save time and money by producing large building components in dry, warm production-oriented factories, leaving as little outside work as possible to be done by the building workers on their weather-vulnerable sites. Since Brunel shipped prefabricated hospital modules to the Crimea, it has been common practice in the export field, especially to the developing world and in many cases to stricken lands, after natural disasters have taken their toll.

But in the past few years interest has increased at home too, a change which has led in turn to a new generation of proprietary building systems. The key word here, whatever material the system is based on, is lightweight. Not only does this get away from the poor image of the heavy concrete systems, but it also indicates changing priorities in the direction of better insulation.

Not surprisingly, the current generation of non-residential pre-fabs is largely a development out of the pre-assembled portable huts we have grown accustomed to seeing on construction sites. Indeed, Portakabin, which has become almost a generic name like Hoover or Formica, were quick to see the potential of improving their basic concept to provide less temporary buildings.

Portakabin's Yorkon system provides two-storey blocks with flush-faced interiors suitable for offices. Its higher specifications have resulted in its obtaining an Agrément Certificate attesting 25 years' minimum life, and it is company policy to apply for permanent planning permission for every Yorkon building.

So far Yorkon has completed 50 projects and has another 25 on its order books at about £250,000 each. The biggest single contract to date would have cheered Brunel himself: a £2.7m scheme for the Ministry of Defence for buildings on Ascension Island.

However, Yorkon is seeking to establish itself in the market in direct competition with conventionally built permanent buildings, claiming a 20 per cent cost advantage. In the case of computer suites, the savings claimed are even greater: as it can easily accommodate computer floors plus the requisite electronic and air-conditioning services below the floor and above the ceiling, Yorkon can be 60 per cent cheaper than the conventionally built equivalent.

Modular structures with their steel frames exposed, suitable for single-storey industrial sheds, can be seen on many modern estates. Terrapin of Milton Keynes have the Matrex system, which improves on earlier systems by avoiding the need for neoprene gaskets at joints between cladding panels. This feature, which often caused problems, is rendered redundant as the Matrex panels are bolted together while projecting steel lips protect the joints.

Patera of Milton Keynes is a system designed by engineers and architects—Anthony Hunt Associates and Michael Hopkins Architects. The product of an exacting brief, Patera was developed so that it could be packed into containers and erected without specialist plant or skills.

This meant the maximum length of any component could be no more than nine metres and the structural engineers proposed that an external three-pin portal frame structure should be the basis, with each portal formed of four elements rigidly linked at the knee with a pin joint at the centre. The makers say that erection of the complete building by a semi-skilled team using a forklift truck working off a ground slab should take less than ten days.

Apart from the expensive all-steel systems, there is also a range of timber-frame non-residential packages by companies like Hallam, Wernick, Youngmans and Terrapin. Modules usually consist of large panels, usually made out of plywood, cladding a timber frame, although volumetric units or boxes with open sides may also be supplied. In between the two there are also systems combining steel and timber elements.

All systems makers claim speed as their main advantage, but this is true only if the planning and building control authorities are as enthusiastic about the product as its manufacturers or owners are. In spite of the Agrément Certificate, some planning authorities are suspicious even about the up-market Yorkon. Others will not give any prefabricated structure planning permission for more than five years. This kind of attitude can cancel out many of the systems' advantages.

Two major crises which have hit the building industry in the past decade have proved to be mothers of invention. The energy shock of the early 1970s and the realisation that asbestos could be a killer made one company, Cape, realise that its years of prosperity as market leader in asbestos cement were coming to an end, and it would have to diversify or die. Its material, which dominated the market both in industrial cladding and roofing, was fast falling out of favour and needed a convincing replacement, which would not only have all the advantages of asbestos cement but also comply with new thermal requirements.

In 1975 Cape began a long-term R and D programme. Eight years and £5m later, earlier this year, it announced the breakthrough: Uni-cem. The new material combines organic fibres with cement for roofing and cladding in industrial, agricultural and domestic garage applications. It is said to conform to British Standard 690 in respect of breaking strength, watertightness and frost cracking and have load and spanning strength at least equivalent to asbestos cement. But in addition it claims minimum maintenance over a 30-year life, minimal fire risk, and resistance to salt, farm effluents and industrial atmospheric corrosives.

Another challenge to the industry was provided by the telecoms explosion, which is affecting the market in new office building and in the rapidly-growing refurbishment sector. With the advent of desk-top computers the existing need to hide services such as electricity, telephone and mains under the floor was compounded. Raised floors seemed the logical solution.

The latest of these has just been launched by Anderson Construction, a Trollope and Colls Holdings Group company. It is said to be the first to be based on an interlocking grid, making it stronger and more versatile. It was specifically developed for the office market, whether new or refurbished and is particularly suited for open-plan areas. Construction consists primarily of high density pressure bonded tongued and grooved chipboard floor panels, supported by an interlocking steel channel system. The minimum overall height is 90 mm and there is good accessibility, important in offices where positions of cable lines need to be altered regularly. Anderson claim considerable cost savings as their floor system actually reduces building time.

### Early days

One of the lessons not lost from the defect-ridden early days, when systems and innovations were put into use without adequate testing, is the importance of such precautions. The Anderson floor system was put through rigorous testing in accordance with performance specifications laid down by the Government's Property Services Agency, including simulation of being "walked on" 250,000 times over a 3½-week period.

Uni-cem was independently assessed by three laboratories: the Henry Stanger Test House (one of the Government-approved testing facilities under its NATLAS scheme) and also by Aston University and Yarsley Laboratory. In addition, it has applied to the British Board of Agrément for a certificate.

The BBA, which changed its name less than a year ago from the Agrément Board, is well on the way to establishing itself in this field and it is taking full advantage of recent Government initiatives which indicated that precedence would be given to certified products in public sector purchasing, and that Agrément certificates would be recognised within the new system of building control which should come into effect next spring.

Perhaps the best proof of the BBA's new found success is that in the year ended March 198? its earned income rose by over 50 per cent and its expenditure by less than 10 per cent. It issued 140 certificates and 75 Assessment Reports, raising the total of valid certificates for new construction products to 425.

Thermal insulation remained a focus of activity: the more stringent requirements of the 1982 Building Regulations contributed to this. The growing interest in timber frame housing generated more work, and various replacements for plywood were submitted for testing. In addition, polymeric sheet materials both for damp-proof membranes and roof coverings were much in evidence as well as new types of flooring, including hard ones which had been formulated (like Uni-cem) to exclude asbestos.

The assault on the plumbing market by plastics products continued as did the counter-attack from the traditional sector in the form of high-strength clayware.

Yorkon building for the Computer Services division of British Aerospace, Hatfield. Constructed on the site of the previous computer building, it took only 30 weeks to complete and lost only eight hours of computer real time during the changeover

# The case for giving the contractor responsibility

THE UK headquarters of the largest management contracting organisation in the world, the giant U.S. Bechtel Corporation, was built in Hammersmith by Costain UK. It was a traditional contract, not a management one, and it was completed on time and on budget, with neither variations nor claims.

Although Costain has succumbed to the recent fashion for management contracting to the extent of setting up a small subsidiary which will take on this line of work, the chairman of Costain UK, Mr John Reeve, thinks this form of contracting has limited advantages in a limited range of construction work. It goes, he feels, against the grain: "Contracting is all about taking responsible risks. In taking the management road, the contractor becomes, in effect, a paid administrator. True, there is no risk — but neither is there a challenge, and the rewards are strictly limited."

The study of management contracting, undertaken by the Construction Industry Research and Information Association (CIRIA), concluded that it could be useful in cases where time is important, where there is a need for work to start before design is complete, where a project involves a number of specialist disciplines and subcontractors, and where the client and his professional advisers lack the resources to manage the work themselves.

On the other hand, it pointed to the absence of standard contract forms, increasing the client's risk and uncertainties, and added that he could face higher payments for administration and supervision.

Mr Reeve agrees with the point about very complex schemes involving various specialised aspects, especially in the case of projects which are also extremely expensive and probably just about beyond the capability of any single contractor. But on the other points he believes better results could be achieved by changing the nature of the traditional contract so as to give the client all the benefits of the management contract without the additional risks and without the extra fees.

As he sees it, what is happening now is akin to Britain's major construction companies taking in each others' washing. Each now has a management contracting division, but taking on this role generally excludes the company from doing any of the building work. So you can have Wimpey, for example, as management contractors for project A with Taylor Woodrow doing most of the construction; on project B the roles could be exactly reversed.

### Superfluous

To him, this means that either company could perfectly well handle the job by itself, and the other is by definition superfluous—yet the fee has to be paid. His own experience as contractor for one of the large management contractors bears this out.

Moreover, Mr Reeve says, clients themselves are beginning to find this out and disillusionment is growing with management contracting, especially in respect of conventional work in the £10m-£30m range. He does not, however, want the pendulum to swing right back to the old system, as he says the lowest tender idea defeats the fundamental object of getting quality.

His thesis is based on the assumption that a contractor good enough to be a management contractor is good enough to give the client all the benefits without the extra management tier. He agrees that current contracting practice tends to put client and contractor at loggerheads—and this is not only counter-productive but also silly, as they are the two parties who share the interest in getting the work done on time and with minimum changes.

His solution is a totally new relationship which puts the contractor firmly at the head of the building team—a position the architects have long thought their own, but have actually lost much ground on, especially since the advent of management contracting.

The client, Mr Reeve says, should appoint his architect to design him what he wants. He should then choose the right contractor, on the basis of past work and clearly demonstrated ability. This may seem a tall order, but it must be remembered that most studies of management contracting have also concluded that the choice of the right firm was vital.

Client and contractor must then agree the contractual basis for the project. They will probably have to draft their own — no standard forms exist for this kind of relationship — but then, again, no standard forms exist for management contracting either.

The essence of the contract, says Mr Reeve, is that the contractor is in complete charge of everything — including the designers. From the time the contract comes into effect, the architect no longer works for the client but for the contractor, and the same goes for all other consultants and professions.

Reeve has few illusions that his ideal will take over the construction scene by storm; the industry and its clients tend to be too conservative for that. But his experience of several contracts undertaken in this way for Tesco confirms his view that this is the real way forward for most building projects.

**Mira Bar-Hillel**

Mira Bar-Hillel exposes a few myths in examining the needs of the new sunrise industries

# Flexibility and location important for high tech

AS BRITAIN stumbles slowly out of prolonged recession, the country finds itself with the largest quantity of vacant industrial floorspace ever. At the same time, the new sunrise industries so desperately needed if the shaky recovery is not to prove a false dawn, are having real difficulties in finding suitable premises from which to operate.

This apparent paradox is all too easy to explain. Much of the vacant industrial space is obsolete, or in the wrong place. Even the most optimistic property analysts hold out little hope that much of it will ever be occupied again.

But why are the high-technology industries hindered as they seek new accommodation? Late last month Sir Monty Finniston, chairman of the Building and Civil Engineering EDCs and a keen proponent of new industries and innovative technologies, delivered a paper in which he said that the non-availability of the right kind of space was thought to be partly the result of conservatism on the part of funding institutions.

This, he said, was strongly reinforced by tax laws and development control procedures which favoured traditional low-standard factories with very small office content and restricted flexibility between factory and ancillary uses.

"In the last Finance Act the maximum allowable percentage of cost for office content to be eligible for industrial building allowance was raised from 10 to 25 per cent after representations from the EDC, but the factory with 40 per cent gets no allowance at all for the office content and the EDC is seeking further changes in the next budget. It is also pressing for more flexibility on the part of planning authorities," Sir Monty said.

The word "flexibility" seems to crop up again and again whenever the needs of high technology industry are discussed. In fact, if the findings of most of the serious research done on the subject are rendered down to basics, it would appear that, given flexibility in aspects such as location and design-in-use, they may well be easier to accommodate than had previously been assumed.

A major review published by chartered surveyors Debenham Tewson and Chinnock this summer, *High-Tech: Myths and Realities*, concluded that the new knowledge-based companies present a challenge to investors and developers in such areas as lease conditions and duration—and above all location. However, DTC insisted, as far as the building itself was concerned, their requirements are reassuringly conventional. This simple truth is obscured by the rampant use (and misuse) of the term High Tech, which has succeeded in becoming a fixture of property jargon while failing to find itself an adequate definition in the dictionary, at least in this country.

## Tongue-in-cheek

The property director of a multi-national company in the electronics industry offered the following somewhat tongue-in-cheek definition: "A High Tech building is any building that is painted green, has false floors, rounded corners and is unlettable." But humour aside, it is impossible not to agree that in the public mind the term is more closely associated with primary colours and external service pipework than with any activity which may take place within it.

Interestingly, the public could have actually come nearer the mark than the jargon-spouting "experts." DTC say that many of the new industries are involved with the application of new technologies to existing products and services rather than the production of High Tech products on their own. Those manufacturing High Tech products often use low-technology processes, which are not dissimilar from more traditional industries in their property requirements. In either case, the image of high technology buildings housing high-technology processes is largely a myth.

The myth however, is not, entirely *without foundation*, and one contributing factor to it has been the growth of the various permutations of the technology park, where the green building with its rounded corners is especially conspicuous for being *set in a pleasant*, well-landscaped environment. Another firm of chartered surveyors, Herring Son and Daw, also researched the subject and their report, Property and Technology—the Needs of Modern Industry, places much emphasis on this question of location and environment.

HSD found that demand for accommodation for high-technology industries fell into three categories and that only one, that of international companies seeking to establish manufacturing capacity within the UK to take advantage of EEC trading, was already adequately catered for, particularly in Scotland. The other two, large companies (national or international) wanting to establish integrated facilities including research and development and customer support services and local companies with similar requirements on a smaller scale, find great difficulty.

This is tragic, says HSD, as it is the latter categories which will provide more stable employment and greater long-term benefit to the UK economy.

## Lighter offices

The report also confirms Sir Monty's view in saying that "the designs of office and warehouse buildings favoured by developers and institutions are suitable for their traditional occupiers, many of whom are drawn from the declining industries. Newer industries want more flexible offices, very light, very clean industrial spaces, better site layout and amenities. They also want several types of use combined in one building" — in other words, flexibility.

On the other hand, location can pose serious problems and again entrenched attitudes militate against success: "There is a serious mismatch of firms to premises and locations. Our competitive position is being eroded by a lack of understanding, based on outdated attitudes, practices and laws."

Maximum flexibility in the use of the building would, say HSD, be achieved if the Use Classes Order were simply amended to include a new class: "Use for a combination of office, *research and* development, light industrial and wholesale warehouse where none of these uses is more than 50 per cent of the whole."

It seems that there is agreement, then, that the actual building is less important than appearances can suggest. DTC found that "a large number of knowledge-based companies operate perfectly adequately from a wide range of property which was not designed to meet their specific requirements." Moreover, in preference to new but inflexible accommodation, companies may well prefer to take a shell, possibly a 1950s industrial building, and fit it out to their own requirements.

HSD concurs with this view, especially at the time when a high-technology firm is starting up.

However, when established and expanding, the requirements become more sophisticated and increase, as do the means to pay for the refinements. At this stage, it appears, more and more companies are looking to purpose-built premises and more and more are finding them in the many "parks."

Both HSD and DTC try to define the differences between the variously named schemes, and generally agree that, while in the U.S., where they originated, the lines of demarcation are clear enough, they have blurred in transatlantic transit. In the U.S. the Research Park is "purest." It has a close relationship with a university and will be engaged in "leading-edge" technologies such as genetic engineering, alternative nutrition and energy sources from biomass—still far removed from commercial applications.

On the other hand, the technology parks "are the homes of firms engaged in high technology, where they are engineering the commercial applications of the discoveries arising from pure research undertaken elsewhere." The term Science Park can apply to the former, or describe a situation halfway between the two. It is sometimes confusingly applied to both—and worse still sometimes to what DTC define as commercial/business parks, where the environment is a prestige one and building specifications high but little or no pure research takes place.

Their examples are Heriot-Watt University as the only true research park in the UK (although there is now planning permission for another near Guildford); Cambridge, a science park with strong links with Trinity College but an industrial element as well; Birchwood Estate at Warrington is a classic commercial/business park—but marketed by the agents as a science park . . . HSD add the Route 128 Development in Boston as a good illustration of a true technology park.

But leaving aside the name confusion, one finds that on these various parks the two essentials remain location and flexibility — and it is in this that they differ from the traditional industrial estate.

In their contribution to the HSD report, designers Conran Roche emphasise this clearly: "*Flexibility is the design brief*, not only between uses, but in layout, either by provision for the construction and removal of mezzanine floors, or by use of removable panels, to change the characteristics of the space itself. Each variant is worked on a modular basis, often with parts pre-fabricated off-site."

The importance of location is two-fold and covers the needs of both the company and its employees. Because of the importance of specialist and skilled staff in knowledge-based industries, to attract and keep them becomes vital, hence the significance of not only the working environment but the availability of good local housing, education and other amenities.

The high-technology industries look to government, both central and local, to acknowledge its needs by adopting more flexibility in land-zoning and planning permissions. Concern is growing that tomorrow's industries are at risk today from the attitudes of yesterday.

**INFLUENCES ON UK LOCATION**

| Criterion | Evaluation % |
|---|---|
| Access to motorway network | 52 |
| Specialist/skilled staff | 49 |
| Markets | 30 |
| Good residential environment | 28 |
| International airport | 25 |
| Domestic airport | 14 |
| University/polytechnic | 12 |
| Cultural/recreational facilities | 9 |
| Railway network | 7 |
| Suppliers | — |

**IMPORTANCE OF BUILDING FEATURES**

| | Evaluation % |
|---|---|
| Design flexibility | 26 |
| Planning flexibility | 21 |
| Attractive financial package | 16 |
| Potential for expansion | 15 |
| Right-sized units | 15 |
| Image/prestige | 12 |
| Short leases | 9 |
| Good natural lighting | 5 |

(Results from DTC survey of 70 firms, 50 of which are already tenants at Cambridge or Warrington.)



PROFILE: HEATHROW TERMINAL 4

# The £200m package

ALMOST BY definition management contracts are unlike. Heathrow's Terminal 4 — at £200m the biggest non-civil engineering project of its kind in Europe — has all the factors required to rule it out as a "typical" management contracting scheme.

There must be few if any projects, for example, which involve 65 sub-contractors, 20 of them household names, employing as many as 1,150 workers at a time on an 180-acre site and spending at the rate of £1m a week.

Few projects, too, are undertaken by a contractor for a client which boasts a 250-strong in-house engineering team.

Yet, on the other hand, the decision of the British Airports Authority to appoint a contractor — in this case Taylor Woodrow — to oversee the construction programme was almost inevitable.

On a project of this size, few clients would have the capacity or confidence, let alone the know-how, to supervise the scheme on their own. If they did, the drain on manpower and resources would put intolerable strain on other activities.

Nevertheless, Terminal 4 is by no means a conventional undertaking, as Mr Tony Westbrooke, the BAA's man-on-the-spot, is the first to admit.

"We were faced with a very short period overall for design and construction and, to obtain the speed, we needed to fragment the work, keeping construction very close up behind design. If we hadn't had that, *we wouldn't be on target now.*"

To the BAA, Taylor Woodrow are construction consultants—not, as in some other Management Contracting (MC) projects, above the designers, but another element in the team.

The BAA launched the Terminal 4 project by putting the design out to a limited architectural competition. Heating and ventilating services were tendered for independently, *while baggage handling and* other specialist airport expertise were kept to its own staff.

Second, and perhaps more welcome to Taylor Woodrow, the BAA itself tackled the political and planning difficulties. These were compounded by the involvement of the Government, the Greater London Council and no fewer than three local authorities along with the vigorous environmentalist lobby.

## Defining the task

Mr Westbrooke defines Taylor Woodrow's task as advising on programmes, organisation, procurement and the supervision of construction work in continuous consultation with the BAA team.

To himself, he confines the unenviable role of satisfying the airport director's demands that he is on target to deliver the three "Ps"—the right product, completed within the agreed programme dates and at the right price.

A convert to Management Contracting, the only problem *Mr Westbrooke could identify* was petty jealousies within the building industry.

"The attitudes of the sub-contractors are the only potential area of conflict," he says. "Given the relationships they would normally have, it can be hard, for example, for professional engineers when they find that they are now sometimes having to 'ask' the people they normally 'tell'."

For Mr Ken Williams, Taylor Woodrow's manager on the Terminal 4 project, the main criticism is that the company was not brought in early enough.

"We believe we should have been in right at the very beginning," he says, adding that time could have been saved if the company had overseen the design stage rather than be presented with a fait accompli.

Nevertheless, Mr Williams *proudly points out* that the terminal is set to be delivered on price and on time in 1985 despite a 16-month delay and the re-designs forced on the BAA by political and financial considerations.

A measure of TW's influence on the project was its success in arguing that the terminal's highly-sophisticated plant room should be moved from the bottom of the building to the top—a change which cannot have endeared the contractors to the designers.

Mr Williams uses the point to emphasise that TW's role is quite different from that of a conventional main contractor.

"*If we had been an ordinary* contractor we would have had no incentive to change the start date. We would simply have said to the client, 'we will start when you have got the new designs.' A main contractor does what he's told—he doesn't take initiatives."

Perhaps the most noteworthy difference between Taylor Woodrow's role and that of a conventional contractor is that the company agreed with the BAA not to employ any of its blue-collar staff on site in order to avoid any accusations of a conflict of interests.

## Fixed fee

The other main difference is a financial one. The company is working for a fixed fee about which Mr Williams will say little other than it is "very *modest.*"

"In the end the money isn't the thing that matters, it is our reputation that is important," he says.

With the new Gatwick terminal in the offing, Taylor Woodrow is probably right in its concern for a very public success, though its hopes for that project lies more in the blue- rather than white-collar field. With contracts of this size, rivals would ask awkward questions if the roulette wheel delivered the same number twice.

**Ivo Dawnay**

**Paul Hannon** assesses winners and losers in the building materials sector

# Hopes pinned on product development

THE CONTRACTION in the British building industry has occurred during a period of wholesale economic upheaval in Europe and the rest of the world. Recovery, for those on their bended knees every night, will not be the overall panacea many thought or expected.

The amount of lost ground that needs to be made up in the building industry and related fields is disturbing when official data are examined.

The OECD index for construction activity by its members has increased marginally by an annualised 0.7 per cent in the first quarter of 1983. This index, currently at 101, is now only marginally higher than the 1975 base of 100.

Britain, however, recorded an annualised 6.8 per cent increase in its construction activity index for the first quarter — the highest European increase — with Germany a close second with 6.3 per cent. Construction activity, as monitored by the OECD indices, slumped some 22 per cent in Belgium, 5.8 per cent in Luxembourg, 3.8 per cent in France and 3.3 per cent in Norway in the first quarter of 1983. Overall, EEC construction activity dropped by 1.6 per cent compared with OECD Europe's decline of 1.9.

## Erratic starts

Housing starts within Europe this year have also been erratic with a substantial contraction, for example, in both Belgium and France, which saw starts fall by 35 per cent and 22 per cent respectively on an annualised basis, while Sweden increased starts by approximately 18.4 per cent, Norway by 14.2, Denmark by 8.8 and the UK by 4.3.

The housing sector is still considered one of the most important features of the employment generator, with each house creating up to 2.5 new jobs, many in the building industry itself, but also in closely-related fields.

Other OECD indices, notably the Indicators of Industrial Activity for iron and steel, glass and glass products, and wood and wood products, have all shown widely fluctuating fortunes for European building-related industries.

Within Britain, a more detailed ananlysis reveals the extent of the recession. New construction orders, for example, have risen in the first half of this year, pushing the volume index to 97 from 90 in the last quarter of 1982, but this is compared with a 1975 base level of 100.

The only sector to rise beyond the token base has been new house building within the private sector at 103. Construction costs within the UK, however, presently stand at an index level of 256 against the 1975 base of 100.

One of the most favourable contractions within British industry, according to the OECD figures, has been the number of working days lost through industrial action. Over 5.3m days were lost in 1982 compared with 4.2m in 1981 and 29.4m in 1979.

In the British building materials industry, winners and losers abound. The recovery, which started earlier this year, has not affected everyone, and some groups are still faced with difficulties over staff and cash flow.

The prospects of 1984 turning out to be a recovery year are tempered by some gloomy soothsaying that 1985 will be the next year of decline for the industry, which has traditionally turned up earliest and declined first in any economic recovery.

The stark dichotomy between houpsing and non-housing becomes apparent if projections for the next two years are analysed.

Non-housing sales of sand and gravel, cement, and ready-mixed concrete, are forecast to rise by 5 per cent this year, according to de Zoete & Bevan, and rise a further 6 per cent in 1984 and by 5 per cent in 1985. Comparable expenditure on bricks, softwood, concrete roofing tiles and plasterboard for the housing market are estimated to grow by 25 per cent this year, a total of 6 per cent in 1984 and only 1 per cent in 1985.

The analysis continues: "The building materials industry delivered less in 1982 than in 1979 and much less than in the previous peak year for demand in 1973. This has particularly been a feature in the mainly non-housing category where the industries have compensated for lower volume by increases in prices over and above general inflation. They have also become more efficient.

"These efficiencies will continue but it will be harder to raise prices more than general inflation. Hard-pressed contractors and cost-conscious clients are resisting price rises and imports of some cheaper materials are entering the market.

"Housing and road repair will be less buoyant in 1985 when greater demand from industrial / commercial should help cement and ready-mixed concrete sectors."

An example of the type and scale of efficiencies being undertaken in the industry was the October announcement by Blue Circle, Britain's largest cement maker, of a £30m modernisation of its Cauldron, Derbyshire works. In the process, Blue Circle would virtually cut its workforce at the plant in half to 250 from 470 and install a new, highly-efficient, energy saving system.

The group has chopped its labour force by 25 per cent in the past three years and has strengthened its grip on some 60 per cent of the total UK cement market.

Mr Reg Williams, of the Builders' Merchants Federation, says: "The recovery in our sector has grown over the past three years and the general trend is still upward.

"We are optimistic for the future but there will be no boom or anything resembling a boom. Building merchants are now more conscious of three fundamental criteria: good quality of goods, competitive pricing and reliable delivery dates."

The last survey by the federation indicated that 77 per cent of its members expected more sales during the next 12 months, but these represented a small decline over the organisation's previous poll. "We are quite pleased with things," Mr Williams says: "But life for the big contractors is a different story."

Building and civil engineers have been consistent in their warnings that the industry is plagued by an inevitable downturn unless the Government changes its capital spending policies.

The National Federation of Building Trades Employers has cautioned that the upturn in housebuilding in the first half of this year is unlikely to be sustained. Elsewhere within the industry, planners and board directors have linked the public spending programme to the looming contraction of the industry.

The past decade has seen the size of the British building industry contract to a dangerously frail condition. Government ministers would suggest that the issue is not one of anorexia, but simply a need to diet and lose some excess flab.

When the much hoped for economic recovery takes place the British building industry is likely to be more efficient, but smaller, more profitable, but less labour-intensive. A rapid economic expansion would see the industry incapable of coping with increased demand, while unduly protective measures against imports would work against it in the long run.

Employment levels within the British building industry have shrunk during the past couple of years, but any long-term impact is likely to be offset by Youth Training Schemes introducing new blood into the various trades.

There is the continual fear that the industry will shrink to the point that it cannot recover once an economic upturn occurs. Building industry observers in Germany, for instance, continually quote statistics on the long-term reduction in the building labour force. The number of men "lost" however must be related to the scale or degree of mechanisation within any industry.

Even the smallest house builder in Germany owns a crane, and the German builder measures his importance (and doubtless his overdraft) by the number of cranes he owns and the number he has working for him at any given time. Mechanisation of British building has a long way to go before this point is reached.

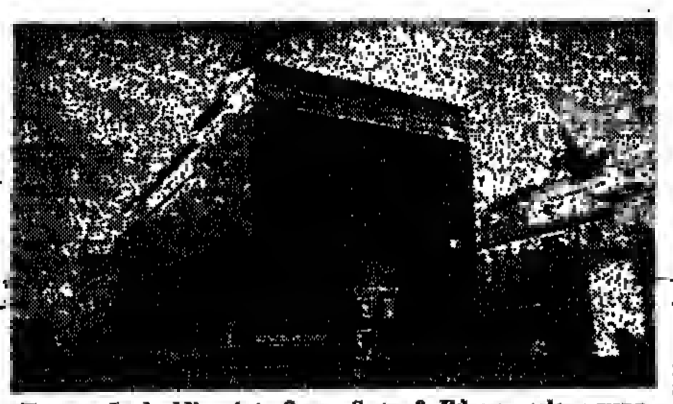
Naturally, forecasters are unable to cope with the utterly unpredictable. Industry witch hunts for asbestos-type material failures have taken their toll, as have adverse reactions to new product developments such as timber frame housing, which hurt the industry as a whole rather than one particular sector of it.

Product development will prove to be a crucial area for future growth, while the consumer, house owner, motorist, or office worker, will develop, it is hoped, a sufficiently advanced sense of taste and style to permit the rapid diffusion of new materials and processes industry-wide.



PROFILE: SWAN & EDGAR

# An unbeatable combination



From ugly duckling into Swan. Swan & Edgar, under wraps at Piccadilly Circus, is being transformed inside but will retain its Grade II listed facade

THE BUILDING which lays claim to be "No. 1, London" is currently under wraps. Swan & Edgar, at Piccadilly Circus, has turned temporarily into an ugly duckling. Inside, where not long ago shoppers strolled past rails of high fashion and shelves of fine china and glass, it is a dusty, noisy building site and the many boards which festoon the exterior are a poor substitute for the Grade II listed facade they now hide.

Before long, we are promised, a new swan will emerge. Work is already well advanced on refurbishment of the building and its conversion to two storeys of modern shopping with the upper four to be used as offices and an additional seventh office floor in the existing roofspace. This time next year Christmas shoppers will be able to return and the offices, among the most desirable in the West End, should be occupied or available for letting.

It all began two years ago when the department store, by then part of the Debenhams chain, was clearly not trading well. Shoppers disliked the shortage of escalators and the awkward layout, preferring to go further north to Oxford Circus instead.

Amid much speculation about the building's future, the leasehold was finally acquired by Dutch company Ressource Development NV through London agents Michael Laurie. It had 26 years to run.

The client lost no time in appointing a professional team to work out a design. By August 1982 a planning application had been submitted for the partial change of use and for building into the old store two atrium wells.

Although Debenhams wanted to begin, and complete, the work as soon as possible, delays could not be avoided. It took until January of this year for a new lease to be negotiated with the Crown Commissioners. Then asbestos was discovered in the structure and a specialist contract had to be placed and finished before the normal "stripping out" contract could go to tender.

By this time the clients were extremely anxious to expedite the process and looked at "fast track" methods of doing so. Ideally, they would have wanted construction work to begin as soon as possible after — or even before — completion of the stripping out. And it was clear that contracts would have to be awarded long before final design was completed, especially as the stripping operation was expected to (and did) reveal unforeseen problems and complications.

There was no need to convince Ressource's agent and project manager, Ronald Lang of Michael Laurie, that the sooner a contractor became involved in the design team the better. Various forms of contract were considered, amid enormous interest and a great many inquiries from virtually every national contractor—and the chosen method was management fee. Four major contractors were then invited to make submissions based on specifications and early drawings, Bill of Preliminaries and a fee quote.

## The timing

The timing given was 13 months for completion of the shops and 20 months for the offices. The four were also given a questionnaire, and offered the opportunity to present proposals for different time scales, if shorter, complete with detailed programmes.

Ronald Lang estimates that each submission must have cost the company between £10,000-£20,000.

The winner was John Lelliott Management Fee, a management subsidiary formed by John Lelliott just 18 months ago in response to the growing popularity of this form of contracting especially in the refurbishment field, in which the parent company has been specialising since it was set up in 1963. The Lelliott submission impressed the entire professional team with its ability to provide the cheapest and quickest solution; it impressed the client's agents by demanding the lowest fee — an unbeatable combination.

Lelliott had another advantage — the company had won the stripping out contract and had gained a familiarity with the building which can only have helped its bid. For instance, it was the only contractor to suggest the use of a crane on the site, which has grave access problems because of its location. Lelliott saw the crane standing in one of two atria wells and hoisting through the other, giving the contractor full flexibility on loading and unloading times.

In the event, it was discovered that the roof could support the crane and loads can now be hoisted through either atria.

When bidding for the work, Lelliott proposed the use of the JCT fixed-fee form of prime cost contract, which has the advantage of being familiar in the industry. Equally, as management contracting jobs tend to rely heavily on often large numbers of sub-contractors, a familiar form of sub-contract was proposed which embodies the NFBTE / FASS / CASEC - Blue (non-nominated) form, to minimise any disputes over contracts. A bond was arranged for £800,000, 10 per cent of the assumed cost plan, at a cost of £13,216.

The duties of the management contractor were envisaged by Lelliott as checking delivery periods of proposed equipment and advising on builders' work requirements. During the all-important pre - construction stage Lelliott attended all design team meetings.

The management contractor was able to feel and behave very much like a member of the design team with no need to establish authority over any other party, because of the presence of the project manager, Ronald Lang, who had played and continues to play, a very active role.

As the client's direct representative, he is the final arbiter in all matters and accepted as such by the entire team. As a result, friction between the management contractor and the architect, which can arise in other cases to the detriment of the project, can be entirely avoided.

With a large design team this is particularly important. The Swan and Edgar team consists of Halpern Partnership, architects; H. L. Waterman and Partners, structural engineers; Gardiner and Theobald, chartered quantity surveyors; and services engineers Donald Smith, Seymour and Rooley, introduced by Lelliott because of their specialist expertise in atria.

Lelliott found early meetings with the team essential to ensure the "buildability" of the design: access problems, working practices, tolerances and "fit."

This also includes checking things like delivery dates of materials as soon as the design introduces them, to avoid any delay. "Should it become apparent that the programme is likely to be jeopardised by the non-availability of any component, we would simultaneously advise the design team and investigate alternatives of securing the contract's requirements."

## The philosophy

The philosophy of Geoffrey Collins, managing director of John Lelliott Fee Management, is that the essence of management contracting is good management. This he defines as "achieving from every situation the best possible solution within the predetermined cost, time and quality parameters." On the more day-to-day level it means teamwork, extending design into detail, developing the design as the job progresses, producing competitive tenders for the various elements and coordinating them with a view to the fastest completion without compromising quality at any stage.

"John Lelliott do not believe in automatic extensions of time. Our success in the London refurbishment market (six contracts in the past few years in the £2.5m-£5m range) has been based on contracts being completed within the specified time period."

This is quite a tall order, when one considers that the Swan & Edgar project is let in some 40 different packages, from external scaffolding to planters and planting, and that at any one time up to 25 different sub-contractors could be working on site together. But this is the very reason why Ressource chose management fee—and why its agent is satisfied that all is going as well as could be expected.

Work is a little behind Lelliott's exacting schedule—but only because of the nature of refurbishment which lacks the relative predictability of new building. Working without the original structural drawings, Lelliott discovered during the contract period that the building's steel frame is shared, with one section of it currently occupied by a functioning bank. The steel beams carry sound and vibration, restricting the time and extent of some of the noisier activities. Worse still, after 5.30 pm the vibration tends to trigger off the bank's alarm system.

This is just one example of the difficulties which refurbishing a period building can throw up — difficulties which Lelliott has overcome with a combination of experience, imagination and flexibility. It hopes that this time next year the completed or near-completed project in Piccadilly Circus will be the brightest feather in its cap.

**Mira Bar-Hillel**

# CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

# Dollar at record levels

BY COLIN MILLHAM

The dollar rose to record levels against the French franc and Italian lira last week, and if present trends continue will soon be at a 10-year peak in terms of D-mark. U.S. interest rates are expected to remain firm during December, supported by an upward trend in the weekly M1 money supply figures. Another factor underpinning the dollar was the passing of a bill by Congress raising the U.S. debt ceiling, leaving the Administration free to increase its borrowing. The subsequent bunching of Treasury auctions before the end of the year is also likely to prevent any easing of U.S. rates.

Apart from the interest rate factor the dollar also advanced on continuing fears about the civil war in the Lebanon and the conflict between Iran and Iraq, and received an additional boost on Friday after the Soviet delegation walked out of the Geneva arms control talks, followed by threats from the USSR to deploy more missiles in eastern Europe. The U.S. currency climbed to a record FFr 8.24875 from FFr 8.2275, and L1,642 from L1,635, and also rose to DM 2.7115 from DM 2.7060.

Sterling weakened late Thursday and on Friday morning following disappointing UK October trade figures. The current account balance of payments was expected to be roughly in balance, but swung to a deficit of £269m, compared with a surplus of £305m in September.

The pound fell to $1.4570 early Friday, not far above the all-time low of $1.4540 touched at the end of March. It recovered slightly to end the week at $1.4620, a fall of 80 points from the previous Friday, and also declined to DM 3.9675 from DM 3.98, and FFr 12.0550 from FFr 12.0925. Sterling's trade-weighted index fell to 83.2 from 83.6.

### £ in New York—Latest

| | Nov. 25 | Previous |
|---|---|---|
| Spot | $1.4600-4610 | $1.4655-4665 |
| 1 month | 0.04-0.07 dis | 0.05-0.06 dis |
| 3 months | 0.22-0.96 dis | 0.22-0.24 dis |
| 12 months | 0.95-1.10 dis | 0.88-1.09 dis |

£ forward rates are quoted in U.S. cents discount.

### FORWARD RATES AGAINST STERLING

| | Spot | 1 month | 3 month | 6 month | 12 month |
|---|---|---|---|---|---|
| Dollar | 1.4620 | 1.4626 | 1.4644 | 1.4665 | 1.4720 |
| D-Mark | 3.9675 | 3.9569 | 2.9377 | 3.9069 | 3.8510 |
| French Franc | 12.0550 | 12.0976 | 12.1765 | 12.3410 | 12.6140 |
| Swiss Franc | 3.1000 | 3.1752 | 3.1507 | 2.1133 | 3.0396 |
| Japanese Yen | 343.75 | 343.0 | 341.5 | 339.0 | 334.4 |

### EMS EUROPEAN CURRENCY UNIT RATES

| | ECU central rates | Currency amounts against ECU November 25 | % change from central rate | % change adjusted for divergence | Divergence limit % |
|---|---|---|---|---|---|
| Belgian Franc ... | 44.9008 | 45.1909 | +2.25 | +1.63 | ±1.5447 |
| Danish Krone ... | 8.14104 | 8.16949 | +0.35 | −0.27 | ±1.6425 |
| German D-Mark | 2.24184 | 2.26303 | +0.95 | +0.33 | ±1.0642 |
| French Franc ... | 6.87455 | 6.88122 | +0.10 | −0.52 | ±1.4052 |
| Dutch Guilder ... | 2.52595 | 2.53586 | +0.39 | −0.23 | ±1.4964 |
| Irish Punt ... | 0.72569 | 0.72834 | +0.35 | −0.27 | ±1.6699 |
| Italian Lira ... | 1403.49 | 1369.57 | −2.42 | −2.42 | ±4.1506 |

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

### BANK OF ENGLAND TREASURY BILL TENDER

| | Nov. 25 | Nov. 18 | | Nov. 25 | Nov. 18 |
|---|---|---|---|---|---|
| Bills on offer | £100m | £100m | Top accepted rate of discount | 8.8643% | 8.8643% |
| Total of applications | £438.33m | £303.01m | Average rate of discount | 8.8624% | 8.8631% |
| Total allocated | £100m | £100m | Average yield | 0.06% | 0.06% |
| Minimum accepted bid | £97.79 | £97.79 | Amount on offer at next tender | £100m | £100m |
| Allotment at minimum level | 79% | 41% | | | |

### THE POUND SPOT AND FORWARD

| Nov 25 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| U.S. | 1.4570-1.4640 | 1.4615-1.4625 | 0.03-0.06c dis | −0.45 | 0.22-0.27dis | −0.67 |
| Canada | 1.8065-1.8140 | 1.8120-1.8130 | par-0.10c dis | −0.33 | 0.10-0.20dis | −0.33 |
| Nethlnd. | 4.43¼-4.46 | 4.43¾-4.44¾ | 1½-1c pm | 3.38 | 3⅞-3⅝ pm | 3.15 |
| Belgium | 80.30-80.75 | 80.40-80.50 | 2-12c dis | −1.04 | 20-30 dis | −1.24 |
| Denmark | 14.27-14.34 | 14.30-14.31 | 2.35-3.35ore dis | −2.39 | 4.10-5.25dis | −1.31 |
| Ireland | 1.2725-1.2770 | 1.2750-1.2760 | 0.23-0.33p dis | −2.63 | 0.90-1.02dis | −3.01 |
| W. Ger. | 3.95-3.97¼ | 3.96¼-3.97¼ | 1¼-1pf pm | 3.40 | 3¼-2⅞ pm | 3.02 |
| Portugal | 187.90-189.25 | 188.75-189.25 | 120-330c dis | −14.29 | 465-985dis | −15.34 |
| Spain | 227.15-228.35 | 227.60-227.80 | 195-230c dis | −11.20 | 625-705dis | −11.68 |
| Italy | 2392-2404 | 2399-2401 | 14-16 lire dis | −7.50 | 47-50 dis | −8.08 |
| Norway | 10.95-11.01 | 11.00-11.01 | 3.80-4.80ore dis | −4.82 | 10.05-10.80d | −3.79 |
| France | 11.99½-12.08½ | 12.05-12.06 | 3-4c dis | −3.48 | 12-13 dis | −4.15 |
| Sweden | 11.61-11.68 | 11.66-11.67 | 2.95-3.50ore dis | −3.32 | 7.55-8.15dis | −2.69 |
| Japan | 342-345 | 343½-344½ | 1.06-0.92y pm | 3.53 | 2.35-2.25 pm | 2.68 |
| Austria | 27.82-27.99 | 27.90-27.95 | 7½-6½gro pm | 2.98 | 21½-18 pm | 2.82 |
| Switz. | 3.17½-3.19 | 3.1800-3.1815 | 1½-1¼c pm | 5.64 | 4¾-3¾ pm | 5.01 |

Belgian rate is for convertible francs. Financial franc 81.45-81.55. Six-month forward dollar 0.43-0.47c dis, 12-month 0.95-1.05c dis.

### THE DOLLAR SPOT AND FORWARD

| Nov 25 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.4570-1.4640 | 1.4615-1.4625 | 0.03-0.06c dis | −0.45 | 0.22-0.27dis | −0.67 |
| Ireland† | 1.1440-1.1470 | 1.1460-1.1470 | 0.25-0.23c pm | 2.56 | 0.70-0.63 pm | 2.32 |
| Canada | 1.2395-1.2405 | 1.2400-1.2405 | 0.02c pm-par | 0.10 | 0.11-0.06 pm | 0.32 |
| Nethlnd. | 3.0365-3.0430 | 3.0365-3.0385 | 0.86-0.85c pm | 3.56 | 2.63-2.73 pm | 3.66 |
| Belgium | 54.96-55.15 | 55.02-55.04 | 2-4c dis | −0.65 | 5-8 dis | −0.51 |
| Denmark | 9.7850-9.8010 | 9.7875-9.7925 | 1-1½ore dis | −1.53 | 1-1½ dis | −0.51 |
| W. Ger. | 2.7075-2.7175 | 2.7110-2.7120 | 0.85-0.80pf pm | 3.65 | 2.51-2.46 pm | 3.68 |
| Portugal | 129.00-129.45 | 129.15-129.45 | 80-220c dis | −13.91 | 300-650dis | −14.69 |
| Spain | 155.65-156.00 | 155.65-155.75 | 125-145c dis | −10.40 | 400-460dis | −11.04 |
| Italy | 1640-1643 | 1641½-1642½ | 9½-10 lire dis | −7.13 | 30¼-31 dis | −7.45 |
| Norway | 7.5190-7.5330 | 7.5275-7.5300 | 2.15-2.45ore dis | −3.66 | 5.50-5.80dis | −3.00 |
| France | 8.2300-8.2650 | 8.2625-8.2675 | 1.65-2.05c dis | −2.95 | 7.10-7.40dis | −3.51 |
| Sweden | 7.9775-7.9870 | 7.9830-7.9860 | 1.80-2.00ore dis | −2.86 | 3.95-4.15dis | −2.03 |
| Japan | 234.90-235.50 | 234.90-235.00 | 0.60-0.58y pm | 2.96 | 1.95-1.90 pm | 3.27 |
| Austria | 19.06-19.11½ | 19.06½-19.07½ | 5.90-5.20gro pm | 3.45 | 17½-15½ pm | 3.45 |
| Switz. | 2.1765-2.1850 | 2.1800-2.1815 | 1.10-1.05c pm | 5.91 | 3.05-3.00 pm | 5.54 |

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 55.72-55.77.

### OTHER CURRENCIES

| Nov. 25 | £ | $ | | Note Rates |
|---|---|---|---|---|
| Argentine Peso... | 27.11-27.18 | 18.508-18.588 | Austria | 27.70-28.05 |
| Australia Dollar... | 1.5945-1.6005 | 1.0105-1.0920 | Belgium | 81.00-81.60 |
| Brazil Cruzeiro | 1,607.7-1,814.0 | 895.900 | Denmark | 14.24-14.64 |
| Finland Markka | 8.4270-8.4535 | 5.7900-5.7950 | France | 11.98-12.11 |
| Greek Drachma | 142.03-142.80 | 97.00-97.03 | Germany | 3.94¼-3.98¼ |
| Hong Kong Dollar | 11.42-11.45 | 7.8145-7.8155 | Italy | 2380-2410 |
| Iran Rial | 128.80* | 87.05* | Japan | 342-347 |
| Kuwait Dinar (KD) | 0.4270-0.4275 | 0.28248-0.29258 | Netherlands | 4.41¼-4.45¼ |
| Luxembourg Fr | 80.40-80.50 | 55.02-55.04 | Norway | 10.93-11.05 |
| Malaysia Dollar | 3.4230-3.4350 | 2.3445-2.3465 | Portugal | 190-198 |
| New Zealand Dlr | 2.2225-2.2275 | 1.5215-1.5240 | Spain | 222-235½ |
| Saudi Arab. Riyal | 5.0925-5.0970 | 3.4800-3.4805 | Sweden | 11.60-11.70 |
| Singapore Dollar | 3.1150-3.1250 | 2.1320-2.1340 | Switzerland | 3.17-3.20 |
| Sth African Rand | 1.7740-1.7785 | 1.2135-1.2165 | United States | 1.45-1.47 |
| U.A.E. Dirham | 5.3525-5.3680 | 3.6720-3.6730 | Yugoslavia | 212-210 |

* Selling rates.

### CURRENCY MOVEMENTS

| Nov. 25 | Bank of England Index | Morgan Guaranty Changes % |
|---|---|---|
| Sterling | 83.2 | −7.6 |
| U.S. dollar | 129.0 | +17.1 |
| Canadian dollar | 88.2 | +0.8 |
| Austrian schilling | 115.2 | +3.9 |
| Belgian franc | 90.0 | −11.5 |
| Danish kroner | 79.9 | −5.7 |
| Deutsche mark | 134.9 | +6.8 |
| Swiss franc | 150.7 | +16.8 |
| Guilder | 116.0 | +4.3 |
| French franc | 66.7 | −16.0 |
| Lira | 48.3 | −11.9 |
| Yen | 154.1 | +11.8 |

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

### CURRENCY RATES

| Nov. 25 | Bank rate % | Special Drawing Rights | European Currency Unit |
|---|---|---|---|
| Sterling | — | 0.717131 | 0.571435 |
| U.S. $ | 8½ | 1.04757 | 0.833634 |
| Canadian $ | 10.83 | — | 1.03404 |
| Austria Sch | 3¾ | 20.0111 | 15.8282 |
| Belgian F | 10 | 57.7101 | 45.0109 |
| Danish Kr | 7 | 10.2546 | 8.16940 |
| D mark | 4 | 2.84036 | 2.26303 |
| Guilder | 5 | 3.18716 | 2.53586 |
| French F | 9½ | 8.64342 | 6.88122 |
| Lira | 17 | 1720.57 | 1369.67 |
| Yen | 5 | 246.341 | 196.076 |
| Norwgn Kr | 8 | 7.87306 | 6.27877 |
| Spanish Pta | — | 163.287 | 129.996 |
| Swedish Kr | 8½ | 8.35278 | 6.96050 |
| Swiss Fr | 4 | 2.30475 | 1.81993 |
| Greek Dr'ch | 20½ | 102.077 | 81.1486 |

* CS/SDR rate for Nov 24: unavail.

### EXCHANGE CROSS RATES

| Nov. 25 | Pound St'rling | U.S. Dollar | Deutschem'k | JapaneseYen | FrenchFranc | Swiss Franc | Dutch Guild | Italian Lira | Canada Dollar | Belgian Franc |
|---|---|---|---|---|---|---|---|---|---|---|
| Pound Sterling | 1. | 1.462 | 3.968 | 344.5 | 12.055 | 3.190 | 4.443 | 2400. | 1.816 | 80.45 |
| U.S. Dollar | 0.684 | 1. | 2.714 | 235.1 | 8.246 | 2.182 | 3.039 | 1642. | 1.240 | 55.03 |
| Deutschemark | 0.252 | 0.368 | 1. | 86.64 | 3.039 | 0.804 | 1.120 | 604.0 | 0.457 | 20.29 |
| Japanese Yen 1,000 | 2.908 | 4.255 | 11.54 | 1000. | 35.07 | 9.280 | 12.92 | 6962. | 5.273 | 234 |
| French Franc 10 | 0.830 | 1.218 | 3.291 | 285.8 | 10. | 2.646 | 3.685 | 1991. | 1.504 | 66.74 |
| Swiss Franc | 0.313 | 0.459 | 1.244 | 107.8 | 3.779 | 1. | 1.393 | 752.4 | 0.568 | 25.22 |
| Dutch Guilder | 0.225 | 0.329 | 0.893 | 77.38 | 2.714 | 0.718 | 1. | 540.2 | 0.408 | 18.11 |
| Italian Lira 1,000 | 0.417 | 0.609 | 1.653 | 143.2 | 5.024 | 1.329 | 1.851 | 1000. | 0.755 | 33.52 |
| Canadian Dollar | 0.552 | 0.807 | 2.189 | 189.7 | 6.651 | 1.760 | 2.451 | 1324. | 1. | 44.36 |
| Belgian Franc 100 | 1.243 | 1.817 | 4.932 | 427.5 | 14.99 | 3.965 | 5.522 | 2983. | 2.253 | 100. |

### EURO-CURRENCY INTEREST RATES (Market closing rates)

| Nov. 25 | Sterling | U.S. Dollar | Canadian Dollar | Dutch Guilder | Swiss Franc | D-mark | French Franc | Italian Lira | Belgian Franc Conv. | Belgian Franc Fin. | Yen | Danish Kroner |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Short term | 8⅜-8⅝ | 0-9¼ | 8½-0 | 5⅜-5⅝ | 1-1¼ | 5⅜-5¾ | 11⅞-12⅛ | 16¼-17 | 8¾-8¼ | 8¾-9¼ | 6⅛-6⅜ | 11-12½ |
| 7 day's notice | 8⅝-8⅞ | 8¼-9¼ | 9¾-9¼ | 5⅝-5¾ | 6-6¼ | 5⅝-5¾ | 12-12¼ | 15¼-16½ | 8½-10 | 9¾-10 | 6⅛-6⅜ | 10½-11½ |
| Month | 8⅞-9⅛ | 8⅞-8⅞ | 8-8¼ | 5¾-5⅞ | 3⅝-3⅞ | 5⅞-5⅞ | 12⅛-12⅜ | 18½-17 | 10-10½ | 10⅛-10⅜ | 6⅜-6½ | 11-11¼ |
| Three months | 9¼-9⅜ | 9-9¼ | 9¼-9½ | 6⅛-6⅜ | 4⅛-4¼ | 6⅛-6¼ | 15-15¼ | 17⅛-17⅝ | 10⅛-10⅝ | 10⅜-10⅝ | 6⅜-6½ | 11-11½ |
| Six months | 9⅜-9½ | 9⅞-10⅛ | 9⅝-9⅞ | 6¼-6⅝ | 4⅛-4⅜ | 6⅛-6¼ | 14-14¼ | 18-18½ | 10⅝-10⅞ | 10⅛-10⅝ | 6⅜-6⅝ | 11¼-11⅝ |
| One Year | 9⅝-9⅞ | 10¼-10½ | 9⅝-9⅞ | 6⅜-6½ | 4⅜-4½ | 6⅜-6½ | 14½-14¾ | 18⅝-18 | 10⅝-11⅛ | 10½-10¾ | 6½-6⅝ | 11⅜-11 |

Asian $ (closing rates in Singapore): Short-term 9⅛-9¼ per cent; seven days 9⅛-9½ per cent; one month 9⅜-9½ per cent; three months 9⅜-9⅞ per cent; six months 9$^{15}_{16}$-10$^{1}_{16}$ per cent; one year 10⅛-10⅜ per cent. Long-term Eurodollar two years 11-11⅛ per cent; three years 11½-11¾ per cent; four years 11⅞-12⅛ per cent; five years 12-12¼ per cent nominal closing rates. Short-term rates are call for U.S. dollars and Japanese yen; others two days notice.

## MONEY MARKETS

# In the doldrums

London's money market remained in the doldrums last week. Interest rates were little changed, apart from a very slight firming of the discount houses bill rates.

Seven-day interbank money was quoted below 9 per cent for much of the week, reflecting the generally comfortable credit conditions. Tuesday's forecast surplus of £300m would have been the largest since figures were published in August 1982, but was later revised to £200m. There was also a surplus on Thursday, and on both days the Bank of England intervened to drain excess liquidity by selling short-dated bills to the market.

Longer term rates saw a little upward pressure from time to time in reaction to domestic events such as the National Institute of Economic and Social Research forecast that inflation will rise to 6½ per cent by the end of next year, and expectations of disappointing money supply figures in December, which will do little to encourage further cuts in clearing bank base rates, particularly if sterling remains weak against the dollar.

U.S. interest rates are also expected to remain firm at least until the end of the year, although at one time last week the Federal Reserve did appear to be trying to reverse this trend. On Tuesday the U.S. authorities added $1.5bn to the New York banking system by way of customer repurchase agreements when Federal funds were trading at only 9 per cent. The rate then fell to 8¾ per cent, but although the Fed's action was seen as aggressive it soon became clear that the market was short of reserves.

The Fed injected further reserves on Wednesday, but at rates of 9¼ per cent and 9$\frac{5}{16}$ per cent, and any hopes of a true easing of credit policy soon evaporated.

In Brussels the Belgian National Bank eventually succumbed to the continual weakness of the Belgian franc. The central bank discount rate was increased by 1 per cent to 10 per cent, and rates on short-term Treasury bills were also raised.

In Frankfurt conditions were calm after the trauma of recent weeks involving the rescue of SMH bank. Call money was very steady at 5.525 per cent, amid signs that banks had already built up sufficient minimum reserve requirements in the earlier nervous conditions.

**UK clearing bank base lending rate 9 per cent (since October 4 and 5)**

### MONEY RATES

| Nov. 25 | Frankfurt | Paris | Zurich | Amst'dam | Tokyo | Milan | Brussels | Dublin |
|---|---|---|---|---|---|---|---|---|
| Overnight | 5.50-5.55 | 12 | ½-1½ | 5-5⅛ | 6.06875 | 17½-17⅞ | 7½ | 11½-32 |
| One month | 5.70-5.80 | 12¼-12⅜ | 3⅝-3½ | 5⅝-5⅞ | 6.40625 | 17⅝-17¾ | 10⅛-10⅜ | 12⅛-12⅜ |
| Two months | 6.25-6.35 | 12¼-12⅜ | 4$\frac{1}{16}$-4$\frac{3}{16}$ | — | — | 17⅝-18 | — | 12¼-12½ |
| Three months | 6.25-6.40 | 12$\frac{5}{16}$-12$\frac{7}{16}$ | — | 6-6⅛ | 6.34379 | 17¾-18 | 10⅜-10⅝ | 12¼-12½ |
| Six months | 6.50-6.40 | 12⅜-12½ | — | 6⅛-6¼ | — | — | 10⅜-10¾ | 12⅜-12⅝ |
| Lombard | 6.5 | — | — | — | — | — | — | — |
| Intervention | — | 12¼ | — | 6¾ | — | — | — | — |

### LONDON MONEY RATES

**Discount Houses Deposit and Bill Rates**

| Nov. 25 1983 | Sterling Certificate of deposit | Interbank | Local Authority deposits | Company Deposits | Market Deposits | Treasury (Buy) | Treasury (Sell) | Eligible Bank (Buy) | Eligible Bank (Sell) | Fine Trade (Buy) |
|---|---|---|---|---|---|---|---|---|---|---|
| Overnight | — | 7½-9⅛ | 9-9⅛ | 9-9⅜ | 8-9 | — | — | — | — | — |
| 2 days notice | — | — | 9⅞-9 | — | — | — | — | — | — | — |
| 7 days or | — | — | — | — | — | — | — | — | — | — |
| 7 day notice | — | 9-9⅛ | 8⅞-9 | 9⅛ | 8⅞-9$\frac{1}{16}$ | — | — | — | — | — |
| One month | 9$\frac{1}{16}$-9⅛ | 9$\frac{1}{16}$-9$\frac{3}{16}$ | 9⅛ | 9⅛-9⅜ | 9 | 9 | 8⅞ | 9$\frac{1}{32}$ | 8 | 9$\frac{3}{32}$ |
| Two months | 9$\frac{1}{16}$-9$\frac{3}{16}$ | 9$\frac{1}{16}$-9¼ | 9$\frac{3}{16}$ | 9½ | 9 | 8$\frac{31}{32}$-9 | 8$\frac{29}{32}$-8$\frac{15}{16}$ | 8$\frac{31}{32}$ | 8$\frac{15}{16}$ | 9$\frac{3}{32}$ |
| Three months | 9¼-9$\frac{5}{16}$ | 9¼-9$\frac{5}{16}$ | 9¼ | 9½ | 9 | 8$\frac{31}{32}$ | 8$\frac{29}{32}$ | 8$\frac{29}{32}$ | 8$\frac{7}{8}$ | 9$\frac{1}{32}$ |
| Six months | 9⅜-9$\frac{7}{16}$ | 9$\frac{7}{16}$-9½ | 9$\frac{7}{16}$ | — | — | — | — | 8$\frac{15}{16}$ | 8$\frac{29}{32}$ | 9⅜ |
| Nine months | 9$\frac{9}{16}$-9⅝ | 9⅝-9¾ | 9½ | — | — | — | — | — | — | — |
| One year | 9½-9$\frac{9}{16}$ | 9$\frac{11}{16}$-9$\frac{13}{16}$ | 9⅝ | — | — | — | — | — | — | — |

| | Local Auth. negotiable bonds | Local Authority Deposits | Finance House Deposits | $ Certs of Deposits | SDR Linked Deposits | ECU Linked Deposits |
|---|---|---|---|---|---|---|
| One month | 9⅝-9⅜ | — | 9$\frac{1}{16}$ | 9.55-9.45 | 9$\frac{7}{16}$-8$\frac{15}{16}$ | 8⅝-9 |
| Two months | 9⅝-9⅜ | — | 9⅛ | 9.45-9.55 | 9¼-9⅛ | 8$\frac{13}{16}$-9$\frac{1}{16}$ |
| Three months | 9⅝-9⅜ | — | 9⅜ | 9.5-9.6 | 9$\frac{7}{16}$-9$\frac{1}{16}$ | 9$\frac{1}{16}$-9$\frac{7}{16}$ |
| Six months | 9½-9¼ | — | 9½ | 9.7-9.8 | 9$\frac{7}{16}$-9$\frac{11}{16}$ | 9$\frac{5}{16}$-9$\frac{11}{16}$ |
| Nine months | 9¾-9½ | — | 9⅝ | 9.85-10.15 | — | — |
| One year | 9¾-9½ | — | 9¾ | 9.95-10.15 | 9$\frac{7}{16}$-9$\frac{13}{16}$ | 9⅝-10 |
| Two years | — | 10¼ | — | — | — | — |
| Three years | — | 10⅜ | — | — | — | — |
| Four years | — | 10¾ | — | — | — | — |
| Five years | — | 11⅛ | — | — | — | — |

ECGD Fixed Rate Export Finance Scheme IV Average Rate for interest period October 5 to November 1 1983 (inclusive) 9.393 per cent. Local authorities and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rates (published by the Finance Houses Association) 10 per cent from November 1 1983. London and Scottish Clearing Bank Rates for lending 9 per cent. London Deposit Rates for sums at seven days' notice 5½ per cent. Treasury Bills: Average tender rate of discount 8.8624 per cent. Certificates of Tax Deposit (Series 6). Deposits of £100,000 and over held under one month 9½ per cent; one-six-month 9¾ per cent; six-12-month 10 per cent. Under £100,000 9¼ per cent from October 6. Deposits held under Series 4-5 10 per cent. The rate for all deposits withdrawn for cash 9 per cent.

### NEW YORK (Lunchtime)

| | |
|---|---|
| Prime rate | 11 |
| Broker loan rate | 10-10½ |
| Fed funds | 9⅛ |
| Fed funds at intervention | — |

**Treasury Bills**

| | |
|---|---|
| One month | 9.35 |
| Two month | 9.55 |
| Three month | 8.77 |
| Six month | 9.91 |
| One year | 9.04 |

**Treasury Bonds**

| | |
|---|---|
| Two year | 99$\frac{11}{32}$ |
| Three year | 100$\frac{11}{32}$ |
| Four year | 100$\frac{1}{32}$ |
| Five year | 100$\frac{11}{32}$ |
| Seven year | 100$\frac{7}{32}$ |
| 10 year | 101$\frac{7}{32}$ |
| 30 year | 103$\frac{1}{32}$ |

## FT LONDON INTERBANK FIXING

LONDON INTERBANK FIXING (11.00 a.m. November 25)

3 months U.S. dollars

| bid 9 3/4 | offer 9 7/8 |
|---|---|

6 months U.S. dollars

| bid 9 15/16 | offer 10 1/16 |
|---|---|

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

## FINANCIAL FUTURES

### LONDON

**THREE-MONTH EURODOLLAR $1m points of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 90.32 | 90.32 | 90.28 | 90.29 |
| March | 89.91 | 89.91 | 89.86 | 89.87 |
| June | 89.59 | 89.59 | 89.54 | 89.56 |
| Sept | 89.31 | 89.31 | 89.26 | 89.27 |
| Dec | 89.00 | — | — | 88.95 |

Volume 888 (697)
Previous day's open int. 8,350 (8,294)

**THREE-MONTH STERLING DEPOSIT £250,000 points of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 90.86 | 90.87 | 90.82 | 90.85 |
| March | 90.52 | 90.52 | 90.47 | 90.53 |
| June | 90.29 | 90.29 | 90.26 | 90.31 |
| Sept | 89.96 | — | — | 90.00 |
| Dec | 89.76 | — | — | 89.80 |

Volume 383 (373)
Previous day's open int. 4,794 (4,785)

**20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 109-08 | 109-09 | 108-26 | 109-09 |
| March | 108-23 | 108-23 | 108-10 | 108-25 |
| June | 108-07 | — | — | 108-12 |
| Sept | 107-10 | — | — | 107-31 |
| Dec | 107-13 | — | — | 107-19 |

Volume 2,345 (2,973)
Previous day's open int. 3,893 (3,440)
Basis quote (clean cash price of 13¾% Treasury 2003 less equivalent price of near futures contract) 8 to 18 (32nds).

**STERLING £25,000 $ per £**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 1.4619 | 1.4619 | 1.4580 | 1.4650 |
| March | 1.4640 | 1.4640 | 1.4607 | 1.4675 |
| June | 1.4665 | 1.4666 | 1.4633 | 1.4700 |

Volume 182 (423)
Previous day's open int. 2,435 (2,445)

**DEUTSCHE MARKS DM 125,000 $ per DM**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 0.3692 | 0.3693 | 0.3689 | 0.3701 |
| March | 0.3726 | 0.3727 | 0.3721 | 0.3733 |
| June | 0.3762 | — | — | 0.3768 |

Volume 159 (97)
Previous day's open int. 338 (337)

**SWISS FRANCS SwFr 125,000 $ per SwFr**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 0.4594 | — | — | 0.4604 |
| March | 0.4659 | — | — | 0.4670 |
| June | 0.4730 | — | — | 0.4741 |

Volume nil (nil)
Previous day's open int. 123 (123)

**JAPANESE YEN Y12.5m $ per Y100**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 0.4259 | 0.4260 | 0.4257 | 0.4260 |
| March | 0.4295 | — | — | 0.4300 |
| June | 0.4330 | — | — | 0.4335 |

Volume 17 (68)
Previous day's open int. 184 (189)

### CHICAGO

**U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%**

| | Latest | High | Low | Prev |
|---|---|---|---|---|
| Dec | 71-28 | 71-30 | 71-22 | 71-21 |
| March | 71-10 | 71-12 | 71-04 | 71-02 |
| June | 70-24 | 70-26 | 70-19 | 70-19 |
| Sept | 70-08 | 70-10 | 70-04 | 70-01 |
| Dec | 69-27 | 69-29 | 69-22 | 69-19 |
| March | 96-16 | 69-15 | 69-15 | 69-07 |
| June | 69-06 | 69-08 | 69-01 | 68-29 |
| Sept | 68-24 | 68-29 | 68-24 | 68-20 |
| Dec | — | — | — | — |
| March | — | — | — | — |

**U.S. TREASURY BILLS (IMM) $1m points of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 91.14 | 91.17 | 91.12 | 91.17 |
| March | 90.75 | 90.78 | 90.74 | 90.81 |
| June | 90.48 | 90.49 | 90.43 | 90.50 |
| Sept | 90.20 | 90.24 | 90.15 | 90.23 |
| Dec | 90.00 | 90.01 | 89.95 | 90.00 |
| March | 89.90 | 89.90 | 89.79 | 89.77 |
| June | 89.60 | 89.60 | 89.58 | 89.57 |
| Sept | 89.40 | 89.40 | — | 89.39 |

**CERT DEPOSIT (IMM) $1m points of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 90.56 | 90.58 | 90.54 | 90.58 |
| March | — | 90.07 | 90.03 | 90.09 |
| June | — | 89.68 | 89.63 | 89.70 |
| Sept | — | 89.37 | 89.34 | 89.38 |
| Dec | — | — | — | — |
| March | — | — | — | — |
| Sept | 78.10 | 77.70 | 77.70 | 77.65 |

**THREE-MONTH EURODOLLAR (IMM) $1m points of 100%**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 90.06 | 90.08 | 90.04 | 90.09 |
| March | 89.65 | 89.67 | 89.64 | 88.85 |
| June | 89.31 | 89.33 | 89.29 | 89.34 |
| Sept | 89.03 | 89.04 | 89.00 | 89.04 |
| Dec | 88.77 | 88.77 | 88.73 | 88.76 |
| March | 88.50 | 88.49 | 88.46 | 88.49 |

**STERLING (IMM) $s per £**

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Dec | 1.4675 | 1.4720 | 1.4665 | 1.4740 |
| March | 1.3695 | 1.4735 | 1.4680 | 1.4760 |
| June | 1.4730 | 1.4760 | 1.4700 | 1.4795 |
| Sept | 1.4755 | 1.4825 | 1.4755 | 1.4820 |
| Dec | — | — | — | — |
| March | — | — | — | — |

**GNMA (CBT) 8% 100,000 32nds of 100%**

| | Latest | High | Low | Prev |
|---|---|---|---|---|
| Dec | 70-12 | 70-14 | 70-04 | 70-05 |
| March | 69-09 | 69-10 | 69-02 | 69-02 |
| June | 68-11 | 68-12 | 68-04 | 68-04 |
| Sept | 67-16 | 67-16 | 67-12 | 67-10 |
| Dec | 66-26 | 66-25 | 66-23 | 66-20 |
| March | — | — | — | — |
| June | 65-25 | 65-25 | 65-23 | 65-10 |
| Sept | — | — | — | — |
| Dec | — | — | — | — |
| March | — | — | — | — |

IMM prices are for Nov. 23. CBT prices are for Nov. 25.

## WEEKLY CHANGE IN WORLD INTEREST RATES

| | Nov. 25 | change | | Nov. 25 | change |
|---|---|---|---|---|---|
| **LONDON** | | | **NEW YORK** | | |
| Base rates | 9 | Unch'd | Prime rates | 11 | Unch'd |
| 7 day Interbank | 9$\frac{1}{16}$ | +$\frac{1}{16}$ | Federal funds | 9$\frac{1}{16}$ | −$\frac{1}{16}$ |
| 3 mth Interbank | 9$\frac{5}{16}$ | −$\frac{1}{16}$ | 3 Mth. Treasury Bills | 9.77 | −0.06 |
| Treasury Bill Tender | 9.8624 | −0.0007 | 6 Mth. Treasury Bills | 8.91 | −0.09 |
| Band 1 Bills | 9$\frac{1}{16}$ | Unch'd | 3 Mth. C D | 9.35 | −0.16 |
| Band 2 Bills | 9 | Unch'd | **FRANKFURT** | | |
| Band 3 Bills | 9$\frac{1}{16}$ | Unch'd | Lombard | 5.50 | Unch'd |
| 3 Mth. Treasury Bills | 8$\frac{29}{32}$ | +$\frac{1}{16}$ | One Mth. Interbank | 5.525 | −0.02 |
| 1 Mth. Bank Bills | 9$\frac{1}{32}$ | Unch'd | Three month | 6.325 | +0.25 |
| 3 Mth. Bank Bills | 9$\frac{1}{32}$ | Unch'd | **PARIS** | | |
| **TOKYO** | | | Intervention Rate | 12.25 | Unch'd |
| One month Bills | 6.00625 | −0.0625 | One Mth. Interbank | 10.3125 | Unch'd |
| Three month Bills | 6.34375 | Unch'd | Three month | 12.375 | Unch'd |
| **BRUSSELS** | | | **MILAN** | | |
| One month | 10¼ | +1¼ | One month | 17$\frac{9}{16}$ | −⅛ |
| Three month | 10½ | +1 | Three month | 17$\frac{11}{16}$ | −⅛ |
| **AMSTERDAM** | | | **DUBLIN** | | |
| One month | 6⅜ | −⅜ | One month | 12¼ | −⅛ |
| Three month | 6$\frac{7}{16}$ | −¼ | Three month | 12⅜ | +⅛ |

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week. Band 4 bills 8⅞.

SECTION III

# FINANCIAL TIMES SURVEY

The weight of cash finding its way in equity markets worldwide highlights the revolution that has occurred in portfolio management. Helped by modern technology and communications, fund managers are venturing far afield in their search for suitable avenues of investment.

# International Fund Management

## Equities develop global market

By BARRY RILEY, Financial Editor

SUDDENLY THERE are signs that a truly global market in equities is developing. The international fund managers who used to concentrate on the U.S. and Japan have turned their attentions to a host of secondary markets ranging from Sweden to Mexico, which have ballooned upwards in the process.

Once, foreign investors challenged the assumptions of local investors only at their peril. Local shares might seem unreasonably cheap but they could stay that way for years on end.

This year, however, the weight of international money has been such that the locals in a number of different national markets have been forced to change their perspectives. Philips of the Netherlands, for instance, has rocketed on to an international rating, its share price jumping by two-thirds in the process.

Much the same percentage jump has been recorded by ICI in the UK, while in West Germany, Siemens has added half to its value and in Sweden Electrolux has nearly doubled.

There are some who argue that a somewhat dangerous two-tier structure is developing, with the broad mass of equities around the world being overshadowed by a "nifty fifty" of global supershares, akin to the glamour stocks of Wall Street which a decade ago defied gravity for so long until the bubble finally burst.

But there are others who believe that modern communications technology and the increasingly international outlook of businessmen and investors is creating a global market. There remain substantial hurdles in the shape of exchange controls (in many countries) and widely variable standards of accounting, disclosure and regulation. But the days are over when national markets could remain isolated from international trends.

### Long tradition

Although there is a long tradition of international portfolio investment in countries like the UK and the Netherlands, it has come only relatively lately to the bigger economies of the U.S. and Japan.

During the 1970s the major phenomenon was the huge growth in international bond markets, reflecting in particular the imbalances which resulted from two oil price explosions. A great deal of Arab money found its way into dollar, Swiss franc and Deutschemark bonds, with Switzerland benefiting as a major source of fund management expertise.

Although growth in the sector has greatly diminished, there remain huge portfolios of bonds, often managed on a highly sophisticated international basis. Immense effort is put into the study of currency movements and interest rate variations, with managers playing an elaborate game in which dollar, yen, sterling and DM bonds can all be heavily involved.

Recently, however, many players in this market have been badly frustrated by the persistently high level of dollar interest rates and the refusal of the dollar itself to correct an apparent overvaluation.

Currency forecasting has become an extremely important element in international portfolio management, both for bonds and equities. But with governments tending to be less interventionist than they once were in the currency markets, it has become much less easy to get the swings right. In particular, the timing of currency adjustments — removal of the supposed "undervaluation" of the yen, for example — can easily be many months adrift from the predictions of computer models.

In equities, at least there is a chance that underlying market movements will be strong enough to outweigh the currency shifts. Certainly much better returns have been seen in equity markets around the world in the past year or so than in bonds.

Capital International's World Index, based upon the movements of some 1,100 share prices in 19 national markets, picked up (in line with Wall Street) from a low of near 120 in August 1982 to a recent peak of around 185, although progress has been slow since the early summer.

The British financial institutions have become major factors on the international equity scene since UK exchange controls were lifted in 1979. Pension funds set initial overseas equity targets of often 10 per cent of their portfolios and many now seem to have raised their sights to nearer 20 per cent.

### Growing fast

Total overseas equities owned by the UK institutions, including pension funds, life insurance and unit and investment trusts, are now well over £20bn and the figure still appears to be growing quite fast. This is in spite of suggestions that the once-and-for-all portfolio shift begun in 1979, when the international barriers were removed, might have been largely completed by the end of the Conservative Government's first term.

The other major international factor is the rapid growth of the overseas investments of the U.S. pension funds — a trend encouraged by the prudential aspects of the Employees Retirement Income Securities Act which governs the actions of U.S. pension plan sponsors.

The basic driving force of the overseas move by ERISA funds has been the desire to achieve greater diversification. One form of modern portfolio theory proposes that a geographically diversified portfolio will involve lower risk — in the sense of generating a less volatile return — than one concentrated in investments in a single market — such as the U.S.

A condition of the theory is, however, that there must not be a substantial degree of correlation in the movements of different markets. If they all start moving together, of course, then the benefits of diversification will disappear.

A large number of U.S. pension funds have decided within the last few years to set up overseas portfolios, usually representing something like 5 per cent of total assets.

InterSec Research of New York estimates that these international investments total some $12bn at present, although the UK broker Wood Mackenzie, who operate an international performance measure service, suggest a more modest — though growing — figure.

They consider the total to be in the $7bn to $8bn range, spread over say 200 portfolios. Typically such funds are geared to investment outside North America and are invested in a very small number of individual stocks — sometimes as few as 20.

The aim of the managers is to make the funds perform by trading the stocks actively, including switching between countries. Typically, much of the money has been invested in the Far East, especially Japan, but there has been a noticeable increase in the European content in recent quarters, to the extent of more than a third of the average ERISA or similar fund monitored by Wood Mackenzie.

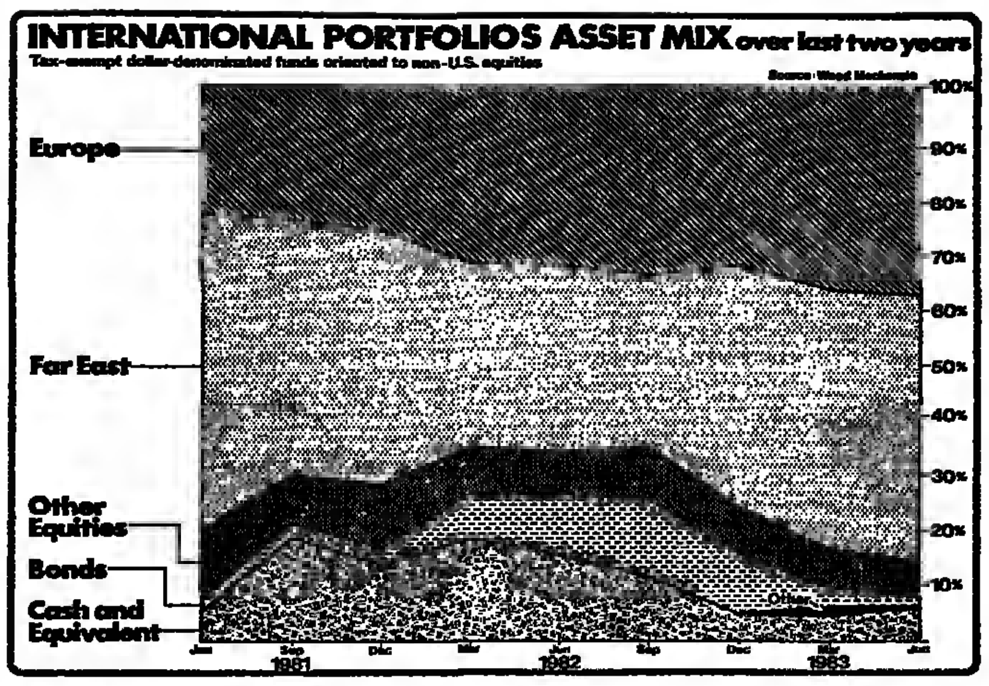
Apparently the UK has become a more popular market but international managers have also been interested in more exotic markets, ranging as far afield as the relatively tiny Finnish bourse.

On average the funds have performed quite well against Capital International's EAFE Index (Europe, Australasia and the Far East). But recent diversification has come at an unfortunate time for the Americans.

The last three years have featured first a strong dollar and then a strong U.S. equity market. Over this period the average fund in WM's sample has achieved an annualised return of 11.7 per cent, comfortably surpassing the EAFE Index return of 7 per cent. But the equivalent return on the Standard and Poors Composite Index has been 20 per cent.

Of course, the benefits of diversification will only show through over a large number of years. It can be argued, moreover, that the right time

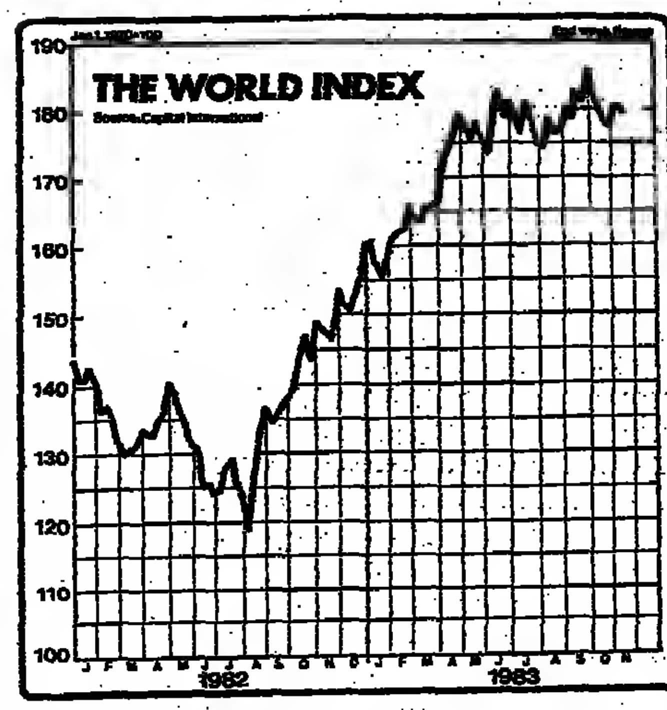
CONTINUED ON PAGE XII




CONTENTS

The big investors are more mobile in their thinking, looking well beyond domestic markets

# London reflects scale of international flows




## Equities

JOHN MAKINSON

FOR EVIDENCE that equity investment is very rapidly becoming international the fund manager in the UK need look no further than his own backyard. The present debate about the future of the London Stock Exchange derives in no small part from the recognition that British securities firms are being penalised for their introspective approach and that, unless changes are made, their stronger overseas competitors will sweep the field.

The London market is caught in the cross-currents of inward and outward portfolio capital movements. The abolition of exchange controls in October 1979 opened the floodgates to British institutions, which immediately stepped up their investment in foreign equities. More recently, London has seen a large influx of overseas money, mostly originating in the U.S. and chasing British securities.

### Clear picture

The Central Statistical Office figures on institutional movement by non-bank institutions give a clear picture of the scale of the outflow. In the whole of 1979 institutions invested £625m in ordinary shares overseas. The following year that figure leapt to £2.2bn and has been rising ever since. In the first three months of this year alone their investment totalled £1.1bn.

While the figures are harder to track in reverse, there is little doubt that overseas institutions have played an important role in the bull market on the London Stock Exchange this year. Increasingly U.S. institutions have determined the price trend in a range of British equities—of which ICI and Glaxo have been the shining examples.

The movement is not, however, confined to the Atlantic. Since the mid-1970s foreigners hava been heavy net buyers on the Tokyo stock market. First came oil-rich Opec funds, which have been replaced more recently by pension money from North America. In the past year the West European markets have started to attract the interest of international funds. The most spectacular case is Sweden, which has been the best performing stock market in the world over the past year, thanks in large measure to the inflow of foreign investment funds.

The increasing internationalisation of equity investment owes something to the lifting of artificial barriers. At roughly the same time that UK institutions were freed from the shackles of exchange controls U.S. pension funds were permitted to place a higher proportion of their portfolios in foreign equity securities.

More fundamental, however, has been the growing sophistication of market operators themselves and the evidence of convergence among various securities markets. Fund managers have increasingly recognised the limitations of their own home market. The London-based fund manager, for example is unable to make a significant investment in the world motor industry or the airline business at home. In the U.S. and Japan, by contrast, there is a wide choice of investments in the motor industry and, on Wall Street at least, a fair spread of airline stocks.

Similarly, different markets offer particular advantages to the internationally mobile investor. The Tokyo market, for instance, has a very low average equity yield but is attractive to funds seeking capital gain as the first priority. New York is meanwhile extremely broad in scope and enables the larger fund to deal in almost any size of investment.

The securities firms themselves, alert to the growing market opportunity, have been quick to develop international office networks and a range of services which enables their clients to compare more fully the relative merits of stocks in various domestic markets. Tha recent U.S. investment interest in ICI, for example, followed from a comparison of the British stock with leading chemical companies in the U.S. International market performance measurement, a rough and ready business only a a few years ago, is now an established service for most of the larger brokers.

It has also been in the interests of the securities industry, having established an international presence, to peddle its wares as vigorously as it can. The fund manager is therefore treated to research bulletins on such esoterica as the South Korean stock market as well as on his humbler bread and butter fare.

The arguments traditionally advanced against the internationalisation of equity portfolios can broadly be summarised as follows. The process involved an unacceptable foreign exchange risk, particularly for those institutions with liabilities denominated overwhelmingly in sterling; the foreign investor could not be sure of obtaining a square deal in a market controlled by local interests, as many leading equity markets are; the overseas markets—with the obvious exception of Wall Street and one or two others—were too illiquid for a fund hunting short-term performance; tha standards of accounting and disclosure were either too different or too poor in quality to justify the attention of the fund manager.

Each of these arguments still carries a certain weight but their merits as a whole look much less clear-cut than they did. Fund managers are now able to hedge their currency risk through the financial futures markets, at least for short periods, if they reckon that an overseas market looks attractive where as its currency of denomination does not.

### Smaller risk

Moreover, some fund managers argue that an international portfolio bears a smaller risk so long as it is well diversified than a fund invested exclusively in one equity market which is vulnerable in general to changing forecasts of, say, the level of domestic economic activity or corporate profits.

Experience has often shown that while currency is an important determinant of overall performance it is not the decisive one. Wood Mackenzie, a leading stockbroking firm, provides regular data on international market returns. In comparing the performance of the UK, Japanese and U.S. equity markets over the 12 months to July this year it found that while the exact numbers changed if the calculation was made in sterling rather than dollars, the performance ranking did not.

Tha charge that overseas markets are controlled by local vested interests still carries some force. The Tokyo stock market, for example, is dominated by four large securities firms which deal both on their own account and on behalf of their clients. A similar situation obtains in Frankfurt, where trading is dominated by the large commercial banks. This control, however, has not prevented overseas investors from making handsome profits, particularly in Tokyo, while the pressure on individual markets to lower their entry barriers is slowly making for more open trading.

The smaller markets clearly remain illiquid by U.S. or UK standards, surprisingly so in soma cases in relation to the size of their domestic economies. Increasingly, however, the participation of international funds is enlarging both the breadth and depth of individual markets.

Disclosure, too, is slowly being improved. The EEC has worked hard to harmonise accounting standards within the Community and in many other markets changes are being forced through. Japanese companies, for example, are increasingly proving willing to provide consolidated accounts along Anglo-Saxon accounting lines, partly in response to tha international interest in their equity and the desirability of establishing a market in the stock outside Tokyo. As large companies list their shares on a growing number of stock exchanges disclosure standards are bound to improve.

Japan is the latest country to make its presence felt in U.S. property deals

# America holds sway with the institutions

## Property

ALISON HOGAN

Downtown Manhattan, home of New York's financial community and itself a high value property centre.

NORTH AMERICAN property has always been near the top of most international fund managers' investment lists. The UK pension funds have led the way and dominated the scene but other European funds have also looked to the U.S., albeit to a smaller degree.

Foreign assets, for example, of all Dutch pension funds amount to no more than 5 per cent of the total, of which one per cent in 1980 was in property. Deals have been concentrated in a small number of large funds through banks or property and management groups such as Lehndorff.

Lehndorff was established in 1966 in Canada to invest funds of European investors in Canadian — and later — American property. It has largely German and Swiss investors, although it recently started a UK operation to encourage UK participants. Lehndorff now manages some 450 properties across North America with assets of some $1.5bn.

Wereldhave, tha Rotterdam based property fund, has been another major investor, most recently in Dallas with two projects worth $50m. It has been relentlessly pursued by PGGM, one of the largest funds, which wants to take it over.

UK institutions began to find their way into the North American market in the sixties, notably through two major property unit trusts, American Property Unit Trust (APUT) and North American Property Unit Trust (NAPUT). But the floodgates really opened in November 1979 with tha abolition of exchange controls. Nearly £3bn of UK pension funds flowed into overseas securities in the next couple of years, with North America one of the most popular destinations.

Some funds decided to go in direct, mainly the giant nationalised industry funds, including Electricity Supply Nominees, the Post Office Staff Superannuation Fund, the National Coal Board and the Airways Pension Scheme.

### Some involvement

Today most of the UK's top 20 pension funds have some U.S. property involvement and life assurance companies have followed the sama track. Some elected to enter the market through the closed-end funds that Grosvenor International set up, some have invested in Real Estate Investment Trusts. There are no statistics to monitor the volume of funds but Graham Bond of Richard Ellis's New York office estimates that UK institutions are currently investing some $750m a year.

The latest country to make its presence felt in a big way is Japan. Investment, mainly from life offices, has been concentrated on the U.S. West Coast around Los Angeles and San Francisco. The Japanese Government has begun to encourage more offshore investment, so this presence is expected to grow, using established agencies to advise on purchase and management.

Some of the institutions which were quick off the mark have done well from their investments, seeing substantial capital and income growth and benefiting from the favourable dollar/sterling rates which then prevailed. The 1981-82 recession changed the picture markedly, however, and although there have been signs of an improving market in 1983, it is a different and tougher place, requiring great skill and detailed knowledge to succeed.

Stockbrokers Quilter Goodison in their recent review of property companies in North America suggest that the sector's involvement in North American property has been valuable for the lessons learnt rather than taught. These lessons—"the realisation of the importance of building management, new marketing techniques and portfolio strategies in a less regulated development environment"—were well learnt by the institutions as well as property companies.

Richard Ellis, in its latest U.S. property report, says that the market for institutional quality properties continues to be very competitive, especially with the emergence of syndicators as a major factor in bidding for fully leased buildings.

Syndicators are groups of private investors who come together to buy substantial properties, mainly for the tax advantages, which include a depreciation write-off over 15 years. The U.S. property scene has always had a strong element of private investment, but only recently have the syndicators attained such an influential level.

Jones Lang Wootton recently marketed a $170m property in Chicago with a limited listing of bidders. It included a number of syndicators who came close to winning the deal, though in tha end a life office came out on top.

Richard Ellis reports that retail properties are in greatest demand at present. Few shopping centres have become available and the highest quality ones have sold quickly. Office yields are being driven down and prices up by intense competition for the relatively few prime buildings available, while industrial yields have shown little change because of continuing weak demand.

Initial yields for institutional quality existing properties available on an all-cash basis, and leased at current market rentals, vary between 8 and 9 per cent for office and major retail, and between 9.75 per cent and 10.5 per cent for industrial.

Though the market is tough there are opportunities according to Gary Barth, investment partner with Jones Lang Wootton in the U.S. "Although gross leases, a general lack of long-term F. R. and I. leases with periodic upward-only rent reviews could scare away the uninitiated, the sheer number of opportunities provides more than ample reward for appropriate risk," he says in "Pension Funds and their Advisers, 1983."

Mr Barth expects to see a return soon to more normal marketplace conditions after the trend of the last year or so for U.S. investors to avoid highly reversionary property in favour of those properties which could provide higher first-year returns. "Sellers of good reversionary property found their market almost non-existent except at prices at which they would not (and should not) have sold. Transactions such as the famous Pan Am Building 1980 acquisition by Metropolitan Life at first-year returns of under 3 per cent were not to be repeated in 1982," he says.

### Cash investment

Jones Lang Wootton estimates that a first-class investment property which most institutions would find suitable for their portfolios requires an outlay of at least $10m. A diversified portfolio of perhaps three to five properties could require a cash investment of $80m. Such figures have led many institutions to choose an investment trust like NAPUT, which now has an equity value of around £125m net. It has just over 60 unit holders and the latest valuation is expected to show a figure of £50,000 per unit.

The growth, according to John Newman is "part currency, part performance and part new money." Its investments stretch from coast to coast, though there is a predominance in the Sun Belt region.

In the case of regional shopping malls, in which there is a very active market, management is crucial, particularly to ensure optimum contingent rents which are related to sales performance. "In order to maintain your market share, management has to be alive to the needs of the centre in terms of the mix of traders, changes in fashion and the possible need to change the position of the centre in its market-place through the introduction of up-market traders and additional department stores," explained Mr Jenkins at the recent Kenneth Leventhal and Co seminar.

### Great potential

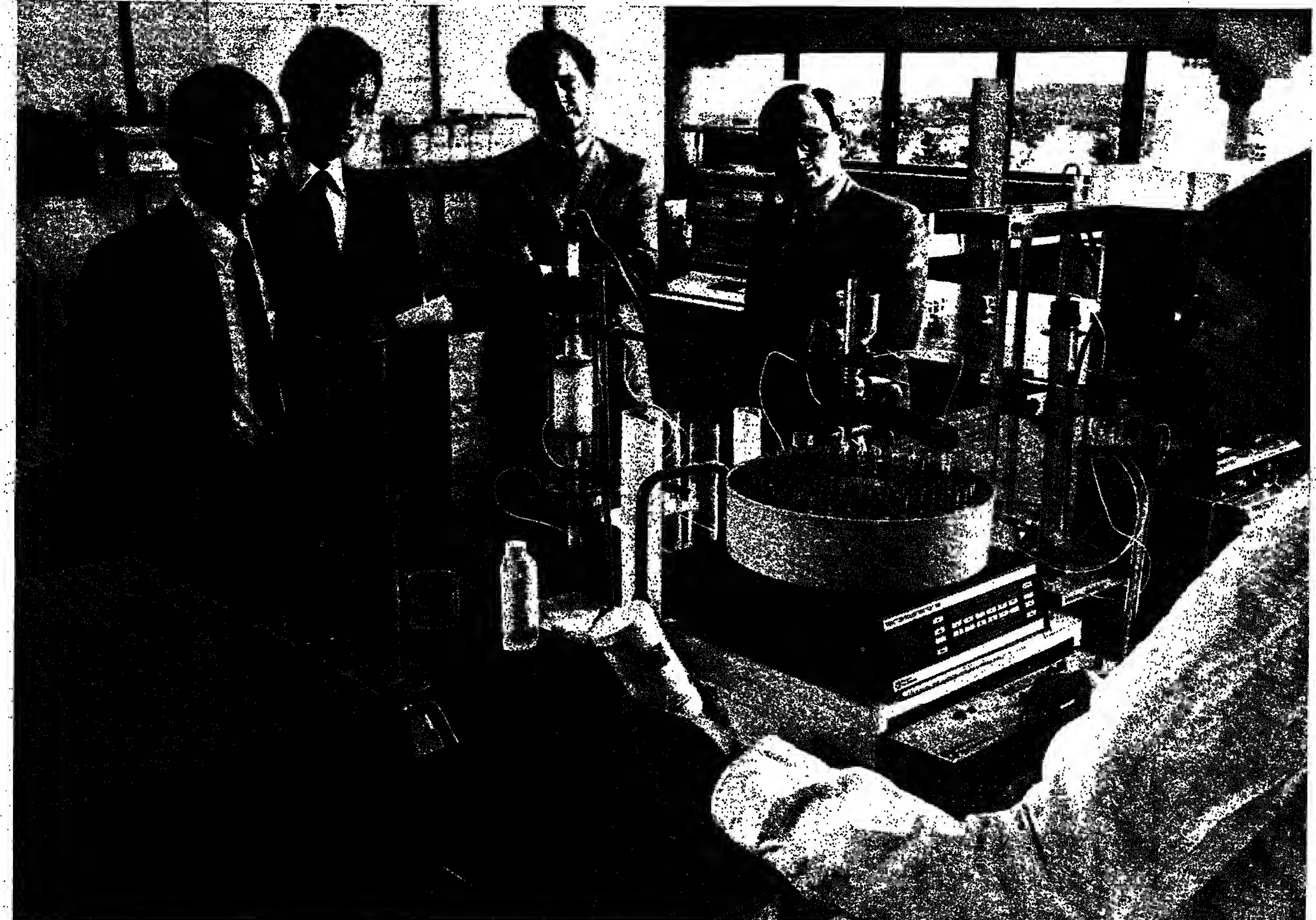
Mr Newman emphasises that even while new opportunities for investments are limited there is a great potential for expansion within existing portfolios by more intensive management.

U.S. property management is highly competitive. It is run as a full business. The lease is fully inclusive of all communal services and upkeep of the building. Managers will poach tenants from rival properties by offering cheaper rents for a better service. Hugh Jenkins of the National Coal Board said recently: "Good management can turn around a faded investment and achieve exciting returns. Poor management can turn a good investment into a 'dog.'"

The NCB has been one of the pioneers and most successful institutional investors in direct property in the U.S. and Mr Jenkins had some timely words of advice. First "set up shop and obtain exposure." Significant U.S. investment cannot be done part-time from the UK. Then, "do your homework and establish your aims and objectives." Markets need careful researching and good impartial advisers are essential.

A number of institutions experienced in property investment have been tempted to dip their toes into the U.S. market only to find their domestic experience of little use, so different are the fields of operation. But for those tempted to either try for the first time, or expand an existing presence, then 1984 should provide an increasing number of opportunities.

# Institutional investors profit from The Morgan Bank's use of international research



Morgan analysts Hisaaki Hino and Paul Wietzel and portfolio managers Graham Nutter and Anthony Bird discuss bio-medical separation equipment with the manager of the UK division of a Swedish health care company.

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Specialist funds to help the budding entrepreneur have mushroomed

# Strong current of enthusiasm in Britain and elsewhere

## Venture capital

TIM DICKSON

THE GOVERNMENT'S Business Expansion Scheme (BES), introduced in last May's Finance Act, has turned 1983 into a bonanza year for budding venture capitalists. Up to the beginning of November more than £25m had been raised by a wide range of financial institutions, which rightly saw the BES as a heaven sent opportunity to promote professionally managed funds to the private investor. At the last count more than 20 had been launched on the market—with sponsors ranging from familiar investment specialists in the unquoted field and stockbrokers to banks and little known licensed dealers—while another 8 or 9 were rumoured to have been approved by the Inland Revenue.

The BES, of course, is attractive primarily because of the tax relief—individuals can claim relief on their top slice of income on new equity investments of up to £40,000 a year in unquoted companies provided the shares are held for five years. (They can invest directly as well through intermediaries.)

But while the impending April 5 deadline and the demand by high income earners for suitable tax shelter opportunities has been the immediate inspiration for the recent flood of funds, financial institutions have a more deep-rooted interest in venture capital. News of the early successes of U.S. venture capital first crossed the Atlantic to Europe at the end of the 1970s just as investors started to appreciate the extent of changing technology and structural economic change. Along with this has gone a renewed belief in the virtues of small companies.

As Sir Clive Sinclair, perhaps the most successful and most oft-quoted entrepreneur, put it in a recent talk, "Young companies now have a special advantage. Because they have no large capital investment in a particular technology they have little to fear and much to gain from trying a new course. This is why so much that is new comes from such firms. Older firms with large capital investments are wise to let young companies explore the frontiers and to follow them swiftly once a successful path has been found."

Ambition to get involved with such innovative, potentially high growth companies has spurred the rapid growth of institutionally backed venture capital in the last four years. According to Venture Economics, the London-based research company which publishes the UK Venture Capital Journal and which is part of tha U.S.-based Capital Publishing Corporation, there are now about 60 professional venture capital firms operating in the UK with a variety of different styles and backgrounds. This compares with fewer than 20 before 1979.

### £300m committed

Between 1979 and the end of September 1983 some 51 new *funds* (as opposed to *firms*) were launched and almost £300m of capital was committed to independent venture capital firms (that figure excludes the considerable sums of money made available for venture capital on an "ad hoc" or "open ended" basis by financial institutions, banks, major corporations, the Government, local development agencies and Investors In Industry, the parent company of ICFC).

Whereas the professionally managed limited partnership is typically used and widely understood in North America (and Small Business Investment Companies, SBICs, traditional back the less risky propositions there) venture capitalists in the UK comprise a wide spectrum of organisations. Some are independent companies that raise funds for venture capital investment from a number of different sources, usually financial institutions like pension funds and insurance companies; others are part of or have close links with established financial institutions and some are "captive" organisations with a single open-ended source of capital but with a separate venture capital investment management team (that is, the specialist equity arms of the major clearing banks or pension funds such as those run by the Coal Board).

The current enthusiasm for venture capital in London and certain other European financial centres—and the headlong rush to establish managed funds—is obviously a healthy development for unquoted companies trying to raise new capital. (It provides a marked contrast with the situation as recently as six or seven years ago.) But amid the euphoria there are signs that the UK venture capital industry is far from experienced or mature.

There are, for instance, big question marks over the ability of certain investment companies to provide the necessary back-up and involvement with the management of the businesses in their portfolios. This is considered a key element of venture capital in the U.S. and requires technical skills and knowledge of markets that go well beyond the qualifications of a run-of-the-mill manager of, say, a conventional unit trust or pension fund.

Small rapidly growing companies—so the theory goes—badly need the professional management skills that a good venture capitalist can provide, known in the trade as a "hands on" approach. This jargon his slipped rather too readily off the tongues of fund promoters recently, culminating in the recent promise of a regionally based insurance broker not previously noted for its investment management prowess to adopt a "*vigorous hands on approach*".

Plenty of Jeremiahs are predicting a severe shake out over the next two to three years when investment management resources will be severely put to the test. It is surprising that so far there has been no really spectacular venture-backed failure—but the way in which the California-based Osborne Computer Corporation collapsed recently to the horror of its supposedly vigilant venture capital backers should give investors this side of the Atlantic food for thought.

Doubt meanwhile, must be cast on just how much of the money raised is really going into venture capital. The conventional wisdom in the U.S. is that venture capital includes investment at all stages of a company's development where there is equity or potential equity participation by the investor, a long-term investment horizon (five to ten years) and a degree of active involvement in the management of the company.

In the UK, venture capital is more commonly associated with early stage or start-up finance and is contrasted with the less risky development capital. The portfolios of some of the merchant bank-run venture capital units certainly reveal a preponderance of development over start-up capital.

The same goes for the majority of funds set up under the BES. Understandably perhaps, managers realise that with investors on a top tax rate of 75 per cent only paying 25 per cent of their subscriptions out of their own pockets (the rest comes from the Government in the form of tax relief) mature companies with unexciting growth prospects offer a much safer bet. Significantly the £1.5m Baronsmead Expansion Scheme Fund—which raised subscriptions discreetly from professional advisers — was virtually alone in stressing its high risk investment strategy. Five out of the six proposals it is hoping back are start-ups or near start-ups.

### Relatively small

With so many financial institutions eager to get a toehold in the venture capital market—and with so much competition for money—many of the funds set up recently are relatively small (*few are bigger than £10m*). This not only gives fund managers a problem when fast growing companies come back for second and third round financings; it also restricts them to smaller deals. One way round is syndication, which is now widely practised among many of the more established venture capital funds in the U.S.

But while many managers are happily talking about this option, some have not yet fully thought it through. Whereas in the U.S. the venture capitalist may provide the "hands on" service on behalf of the others, there is no guarantee of such accord in the UK. The learning curve for new entrants to the venture capital scene in the UK will be fast—but in the process there are bound to be casualties.



Tax considerations are the all-important factor involved

# Guidance on ground rules while seeking crock of gold

## Expatriates

TERRY GARRETT

THERE ARE around 2m British expatriates beavering away overseas to accumulate their own crock of gold. Three-quarters of them are earning over £15,000 a year and quite a few are earning a great deal more. Free of the shackles of British taxation tha expatriates are a veritable boney pot for financial advisers with suitcases full of investmant schemes.

Yet before giving way to the blandishments of tha salesmen the expatriate should take a long hard look at his tax position and investment requirements. Independent advice does not come cheap but it could be worth every penny.

The first step is to get free of the Inland Revenue. The men at the Revenue have a clearly defined perspective of their job —to tax any income that a British resident receives no matter where it comes from and to tax any income arising in Britain whether it belongs to a resident or not. Thet simplistic statement sums up reams and reams of tax legislation, definitions and procedures. Tha prospective expatriate has to consider bis tax position before be goes, while he is abroad and in the run up to his return.

Inevitably the tax rules ere complex but even so there are e few ground rules that have to be followed to establish non-residence and therefore a chance to wave goodbye to the Revenue for a while.

### Departs shores

An individual can establish non-resident status as far as the tax man is concerned from the day be departs the shores of the UK so long as he goes abroard under a full-time contract of employment and meets various requirements about the length of time served overseas. By a "contract of employment" that means an expatriate can take a succession of jobs and still qualify as long as they are full-time and continuous.

To gain the sought-after status of non-residence the individual must be absent from the UK for at least one tax year. During the first year any visits to the UK must not exceed 91 days (over a tax year) and after that visits to the UK should not exceed 182 days in any single year or over 91 days on average every 12 months over the whole period spent overseas.

Not surprisingly, the fine detail of the tax legislation is intricate while working expatriates are treated differently to non-working ones. For example an expatriate not working overseas will be regarded as a resident by the Revenue if he retains accommodation in the UK no matter how brief his visits or whether he actually uses that accommodation or not.

Each individual really needs to get an eccountant to plough through the bureaucratic jargon and relate it to his specific requirements. With the tax implications sorted out, the next move is to consider the investment structure. Like any other investor the expatriate has to establish a tax efficient portfolio which will perform. Presumably the expatriate will be aiming at capital appreciation rather than income, though of course he should cover his insurance needs first.

No matter what the salesmen say, offshore regular premium policies are normally only worth entering into if you are a fairly long-term expatriate wanting a tax-free income on returning to Britain. Possibly these funds have more relevance to someone who will be coming back to the UK to retire but does not have a company pension scheme. Alternatively they could be used to supplement an existing pension entitlement.

Expatriates who can expect a good income on coming back to the UK and those who have no intention of returning to Britain are normally better advised to steer clear of life insurance linked savings products. They should find better performance among the host of ordinary offshore funds where they will not have to cover the extra cost of carrying life insurance.

The offsbore fund industry is often thought of as the expatriates' equivalent of the UK's unit trust industry. That is halfway true in that the funds are a way of pooling investors' money and spreading it over a broad range of investments to minimise risk. They do, however, have some important differences.

Obviously offshore funds are based in the tax havens, so gross investment income on gilts or Eurobonds, for example, can wash through virtually intact to investors. Equity investments, on the other hand, are often subject to withholding taxes and so offshore funds understandably concentrate their efforts on capital appreciation rather than income. But that is not so very different from many onshore UK funds and indeed those approved trusts in the UK may offer the investor a better deal in terms of charges.

### Offshore vehicle

Yet tha offshore funds can benefit the investor by being frea from the Department of Trade and Industry's rules which hold down authorised UK trusts to what they can and cannot invest in. The offshore vehicla can waltz in and out of commodities as much as it likes or hold as much property as its managers think fit rather than what the Government's men dictate. In eddition, funds outside the UK can be denominated in any currency to give the investor greater exposure to a market. Of course, the Government's rules are there to protect investors and going offshore can take away the safety net.

If the expetriate is persuaded that he needs a life policy, unit-linked plans are popular and easy to understand. Yet tha subject of whether an expstriate should take his money offshore or invest through UK-based insurance funds tends to stir up plenty of argument from both sides. In theory funds operating in nil or low tax areas should be able to provide tha investor with a much better return—in practice it does not always work that way.

Those who advocate that the expatriate is better served by taking out a UK-based maximum investment plan tend to stand their argument on four basic points. If an expatriate takes out an offsbore policy while non-resident he will not be eligible for tax relief on the premiums when ha returns to the UK. Premiums paid into a policy issued by a British insurance company would certainly qualify for relief when the expatriate lands in the UK.

Charges on offshore policies tend to be higher than those normally levelled on UK policies, even though many companies increased their charges when the Department of Trade removed its hold over maximum percentages. The home market also has a wider range of unit-linked funds on offer than the tax havens. Finally, tha domestic market men argue, there is no hard evidence that offshore funds consistently outperform British unit-linked funds, despite the taxation advantages of going offshore.

The best hope for any prospective expatriate is to shop around and select a good adviser—there are certainly plenty to choose from both in the UK and the traditional tax havens. But unless an individual is particularly well beeled he is unlikely to get a personal investment service, so the rule must be to check back on tha past investment performance of in-house funds on offer.

Investment in bonds remains historically high, with floating rate notes adding to issue activity

# Lively market demanding dealing expertise to match

## Bonds

DUNCAN CAMPBELL-SMITH

"FROM MAY to July the bond market was one big banana skin for fund managers," according to one of their number in London. The apparent change of tack in domestic U.S. monetary policy last May sparked off an upward move in dollar interest rates and investors fully committed to dollar fixed interest securities began to feel the chill. Most reacted by reducing their commitment, greatly reinforcing a gentle trend already evident earlier in the year.

If international funds have since been retreating from last year's very heavy—and lucrative—emphasis on the bond markets, however, they still remain invested at what are historically high levels. London merchant bankers Morgan Grenfell, for example, still have about 70 per cent of their $2½bn fixed interest funds invested in the market. This compares with perhaps 30-40 per cent a few years ago—though last year the proportion was as high as 95 per cent.

### Straight deposits

Fixed interest funds withdrawn from the market can generally be switched into straight deposits or a range of money market instruments which in addition to certificates of deposit include floating rate notes (FRNs). The FRN is properly speaking a component of the bond market, though fund managers take advantage of the liquidity assured by a very active secondary market in regarding it as an effective alternative to deposits.

There has certainly been a good market reception for FRNs during 1983, with jumbo issues appearing first for Sweden early in the year and then for the EEC in September. Not to be outdone, Sweden returned at the end of October with another huge FRN, which proved so popular that it was actually doubled in size to a $1bn issue no less. This was the first time any new issue in the Eurobond market had ever been increased by such a large amount and nothing better illustrates the hyperactivity in the FRN sector in recent months.

For London-based fund managers a particularly interesting aspect has been the reawakening of the sterling FRN market, untapped for three years or so but flourishing again this autumn.

### Full advantage

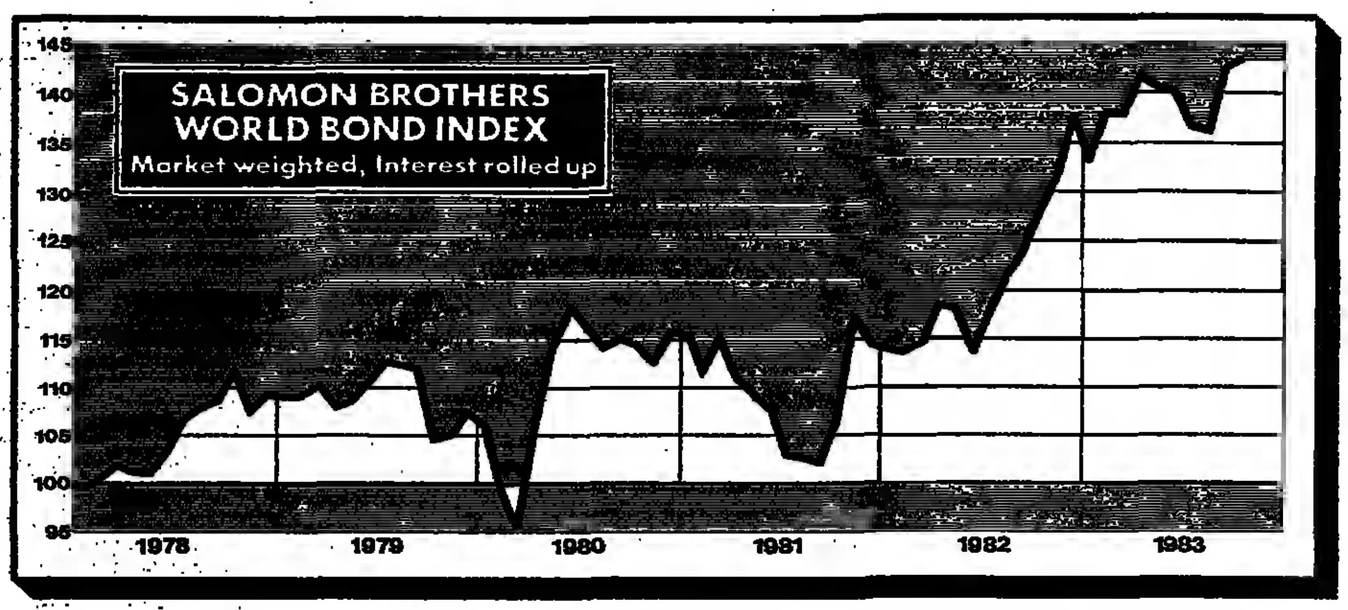
How much the fund managers have themselves done to stimulate these developments, however, is hard to say. Probably the value of the FRN as a quasi-banking asset is the principal explanation, with the commercial banks for one reason and another providing the major part of the demand. But the funds have certainly played their part and have taken full advantage of the phenomenon.

Funds left in the straight bond market, meanwhile, enjoy as varied a range as ever of currency sectors where bonds can be bought without tax complications.

The guidelines constraining most fund management contracts typically specify a heavy weighting for the dollar, which the manager can satisfy either in the international market or else in a special sector of the domestic U.S. market.

International dollar bonds are the mainstay of the Eurobond market, while in the U.S. there are dollar bonds issued by non-U.S. borrowers, nicknamed "Yankee" bonds, which are also free of withholding tax complications. Much the same choice between the international and the domestic is theoretically available in some other currencies, as between sterling Eurobonds and "Bulldogs," for example, or yen Eurobonds and "Samurai" bonds—though in both these cases the Eurobond version has been relatively neglected.

The fund manager's menu of tax-free bonds then includes two main variants on this model. There are currencies offering tax-free, international investments, that is in the Eurobond market, but little or no scope for non-nationals to invest in their public domestic markets; the D-mark belongs in this category. Conversely, there are currencies which have been denied to the Eurobond market but still provide a home market for tax-free foreign issues, as applies, for example, to the Swiss franc.




The most obvious area missing from this list is the domestic U.S. bond market. Like most other domestic securities offered around the world—Dutch guilder domestic bonds are a conspicuous exception—U.S. securities proper are generally closed to the international fund manager unwilling to accept the burden of withholding taxes, though special arrangements are available giving tax exemption to sovereign investors.

A flutter went through the fund management world this year when the perennial possibility of major changes to this U.S. tax structure looked for a few months as though they might actually come to something. The prospect of an end to withholding taxes, with all that this would mean for the gradual emergence perhaps of an homogenous global market in U.S. dollar bonds, has now faded once again as so often before; but few bond managers doubt that it will be back again.

### Downside risk

The importance of the potential change is amply sugge. by the evident effect on the markets of the threat alone. Dollar Eurobonds periodically trade at a higher price than domestic U.S. bonds, typically offering a yield which can be 70 to 100 basis points lower. This represents a downside risk for every investor in dollar Eurobonds each time the abolition of U.S. withholding taxes becomes a live issue, for there can be little doubt but that arbitrage between the domestic and international dollar markets would very quickly eliminate most or all of the price differential.

Lively markets demanding dealing expertise to match London fund managers acknowledge that when there was some nervousness about the situation during the summer, when many began to switch their international dollar holdings into Yankee bonds, which carry no such price differential. The resulting shift in demand pushed Yankee prices appreciably higher.

There were other factors working to the same end. Perhaps most important fund managers know that a weakening of the dollar has generally been accompanied in the past by a widening of the yield gap between Yankees and the Eurodollar market. Many have therefore been moving funds during 1983 into the Yankee market in anticipation of the widely expected decline of the dollar—an event which begins to resemble the arrival of Samuel Beckett's Mr Godot.

### Issuing sector

Speculation about a closer alignment of the dollar Eurobond market and the domestic U.S. markets, however, focused some attention on other important existing differences in addition to the prevailing gap in secondary prices.

The modus operandi of the international market's primary issuing sector has always been a little different from its New York cousin; but it has become far more so over the last 12 to 18 months, which have seen the "bought deal" achieve a complete dominance of the international market.

A mandate to issue a Eurobond is "bought" where the successful bank commits itself at the outset to provide the borrower with his proceeds on agreed terms which cannot be altered. The bank thus accepts the risk of an adverse change in market conditions during the period in which the bond is to be underwritten and sold.

The consequences are unmistakable. "Fund managers have to move much faster in today's Eurobond markets," says Mr Alan Wrigley of Lazards. "Bought deals now dominate the market absolutely and this effectively ensures that successful new issues are placed within hours of their announcement. If the first details I see of a new issue are in the newspaper, it's usually too late."

The many implications for fund managers are already glaringly apparent. Above all, bought deals have narrowed the ranks of the leading issuing houses and increased the pressure selling tactics to which fund managers are exposed every day.

One prominent manager has no doubt about the only appropriate response. "There is hardly a major issuing house in the market with which we deal that hasn't, at some time or other, tried to sell us bonds in a new issue which it knew we did not want. Our reponse, whether we have been stuffed with the paper or not, is to warn them that if they try to do it again, we will cut our business links—which generally works, though not always overnight." Nor do all fund managers take quite such a robust stance as this.

The growing time pressure on the placement of new bonds has done nothing to reduce the potential conflicts of interest for those fund managers working within the structure of a banking group where another division is active in the new issues business. There are many such groups operating in the Eurobond market and instances of fund managers using client accounts to purchase bonds issued by their group's own corporate finance division are commonplace—in marked contrast to the rules of practice which prevail in the domestic U.S. bond market.

London and Continental managers defend their integrity by insisting that in-house issues receive just as much scrutiny as bonds offered by outside sources—indeed in many cases rather more. No one in the market would deny the obvious difficulties, but few doubt either that an unstinting respect for the inviolability of Chinese walls can provide a satisfactory defence.

One other line of defence, though, is worth noting—namely, that today's fast-moving market makes the in-house issue more valuable than before as a source of bonds which the manager can tap with the least danger of delay. Those taking this line, particularly in London, tend also to shift the focus of the whole issue. The point, they say, is not that some managers abuse their position by buying bonds internally but rather that too many managers fail to pass on to their clients the advantageous prices sometimes picked up in the primary market, whether through buying bonds in-house or from others.

"The pricing structure of the market is undoubtedly being abused," admits one London manager with an understandable request for anonymity. "Many, many fund managers are still pocketing the selling discount on new issues at the expense of the client accounts where the new issues are being placed." Nor is the charge levelled exclusively at the Swiss banking sector, though it remains the Swiss against whom this sort of criticism is most often levelled.

### Less hazardous

If the bought deal has significantly increased the reliance of the fund managers on close links with the issuing houses, however, so too has it heightened the issuers' dependence on the managers. Firm commitments to a prospective borrower are, after all, always likely to look less hazardous where the issuing house is reasonably confident of demand for the paper. It is a conspicuous trend in today's market that managers are being increasingly approached, therefore, for their views about planned issues—"names are only rarely cited and the conversations tend to be about possible structures for an issue than pricing details," says one manager, "but the trend is there."

This is producing some curious anomalies in the market from time to time, as when fund managers learn of a new issue even before the banks which the lead issuing house is intending to invite into the management group. But it is a telling indication of the growing role of the fund manager in a marketplace increasingly orientated to institutional rather than retail investors.

# Smaller outfits find room alongside major group

## Fund managers

BARRY RILEY

THERE IS no identikit portrait of the typical international fund manager. He may work for a major internatiooal bank with branches around the world or he may operate, almost without support, as an independent fund manager in e provincial office.

Of course, in order to compete for the big ERISA fund business flooding across the Atlantic from New York, portfolio managers need to demonstrate adequate depth of resources and a oroveo track record. This is very much the territory of the established banks and securities bouses.

But in the private client market it is much easier for brokers and unit trust companies to set up oo a modest scale. Just occasionally, some of them show the kind of exceptional performance which has allowed Framlington or Perpetual Growth to expand into e bigger league.

Recently, however, the tendency of big pension funds, on both sides of the Atlantic, to divide themselves up into separately managed segments bas given a chance for indepeodeot portfolio managers—or "boutiques"—to find a place in the institutional market.

But it is a highly competitive business—not so much in terms of fees, which are much more generous on international funds than in the domestic market but rather because of the oeed to sbow high performance. Any manager who slips up for more than a quarter or two in a row is going to come under severe pressure.

It was not quite so competitive a hundred years ago, when the Scottish investment trusts first began to market the concept of international portfolio investment. They were set up as closed-end funds, a guarantee of stability and loogevity—though not always of full value for their shareholders, who often in receot years have found share prices trading at well below underlying net worth.

Something of the same international approach was shared by the Dutch when Robeco, the Dutch investment fund, was set up 50 years ago. The main Robeco equity fund has now reached a portfolio value of well over $2bn. Over the years the group has launched other funds focusing on growth equities, bonds and property. In all the Rotterdam-based group now cootrols international funds of the order of $5bn.

Marketing these funds to private investors has not, however, always proved easy. In structure the Robeco funds fall halfway between the closed-end investment companies and the open-end mutual funds or unit trusts familiar to the Americans and British.

Robeco is open-ended but relies oo demand through stock markets. There are no substantial resources available to provide incentives to selling agents, which makes Robeco something of a low profile giant on the international investment scene.

The British unit trusts are much better placed, especially with the extra tax benefits they are able to offer domestic investors through savings plans linked to life assurance, and they have become highly active in offering international investment opportunities.

A characteristic of the UK unit trusts, however, is that individually they are rather small. This may partly reflect a desire by unit trust companies for funds of a manageable scale but is probably primarily a marketing phenomenon. Investor demand is very much influenced by fashions and gimmicks, so there is e teodency to launch e variety of highly specialised products to catch each phase of the cycle. If the Japanese market has been a dog, then perhaps the Australian fund will look like a winner.

### Blockbuster

Traditionally, U.S. investors have been little attracted by international investment but that attitude is changing fast. A rather dramatic indication of the rate of change of U.S. attitudes was given last spring by the blockbuster launch of Merrill Lynch's Sci/Tech Holdings mutual fund.

The theme was the worldwide science and technology sector, drawing together the expertise of Nomura in Japan and Lombard Odier in Europe as well as Merrill Lynch itself. The timing was right and on the strength of Merrill's marketing muscle the new fund drew in more than $800m.

Of the total, just over half was initially invested in U.S. securities and 35 per cent in Japan. That left 14 per cent for stock markets in Europe and elsewhere.

Lombard Odier's involvement here is a rather rare example of a Swiss bank in a high-profile marketing exercise. The normal Swiss approach is more discreet, though some banks like Julius Baer sell their services fairly aggressively in the UK and elsewhere.

The Swiss have been successful in attr...ding funds from big international private investors looking for security and confidentiality. But for those more concerned with investment performance and competitive fees the Swiss are not so attractive. So the rich pickings of the newly internationalising U.S. pension funds have tended to go to British and U.S. investment management houses.

Successful contenders bere include big U.S. banks like Morgan Guaranty and Chase Manhattan through commingled funds; major U.S. fund management groups such as Fidelity or T. Rowe Price (the latter through a British partner Robert Fleming), and the leading British merchant banks, including Morgan Grenfell, Kleinwort Benson and Schroder Wagg.

It is a market where muscle counts for a good deal but some of the independent British fund managers bave also gained a modest slice of this business. Thus GT Management and Ivory and Sime in Edinburgh are actively involved and another Charlotte Square investment trust management bouse, Martin Currie, is also managing ERISA funds, though so far on a fairly modest scale.

The international expertise of the British fund managers puts them at an advantage but they still have to promote themselves to U.S. pension plan sponsors — an expensive and time-consuming procedure. Marketing partnerships can be risky, as Warburg found when its arrangement with Aetna Life broke down last year because Aetne bought a stake in a rival London accepting bouse, Samnel Montagu.

Over a period of years achieved performance is going to be highly important in determining which of the international ERISA fund management houses retain their existing clients and gain new ones. In a volatile bigh-risk area like this there could well be a fair degree of switching of portfolios from one manager to another.

But squeezing out the extra percentege point or two of short-term performance is not necessarily the whole story. The Americans are highly conscious of the relative riskiness of different investment strategies and the pension plan trustees will bave to be persuaded that th[illegible] rewards outweigh the risks.

In such circumstances there is room for several different styles of management. Some of the bigger banks offer a highly diversified style, aimed et clients who are concerned with being prudent. Some sort of global index fund would be the extreme embodiment of this approach.

At the other extreme smaller boutiques offer a much riskier, more aggressive style of management—tailored, perhaps, towards institutional clients who are ready to graft very actively managed segments on to a basically passive core portfolio. The overall risk is controlled but the really ambitious fund manager is given his head.

At this level, with only a comparatively small portfolio, concentrated in relatively few individual stocks, it becomes feasible for a small boutique to offer a credible service, relying on back-up from stockbrokers' research. But of course it is a question of perform or die.

One of the latest City link-ups is between leading merchant bankers S. G. Warburg and top stockjobbers Akroyd and Smithers (see article below)



# Uncertain time ahead for London houses

## Securities firms

JOHN MOORE

THE CURRENT upheaval in the structure of financial markets is said to represent the great period of change since coinage replaced barter in 700 BC.

More than 200 British securities firms face the most uncertain and challenging time in their history following moves to deregulate the London stock market this summer, while major international securities firms are looking to consolidate their own positions in many overseas markets.

The changes which are taking place in the London stock market are radical indeed. They follow a controversial deal struck between the British Government and the London Stock Exchange this summer following the General Election.

In the agreement the Government agreed that the legal case being prepared against the Stock Exchange for hearing in the Restrictive Practices Court should be dropped and the Stock Exchange exempted from any further effects of UK restrictive practices legislation.

In return the Stock Exchange agreed that it would abandon its rules setting minimum scales of commissions on transactions carried out in its market by stages—a reform to be completed by the end of December 1986—and create an appeals mechanism which would allow those rejected for membership to the Exchange to have a procedure for their application to be heard again. Outsiders—or lay members—would have seats on the Stock Exchange ruling body and its other regulatory mechanisms.

Among the 214 stockbroking firms and 17 stockjobbing firms on the Exchange there was apprehension about the deal. With the abandonment of minimum scales of commission there would be commercial pressures on firms which would force them to merge. Brokers—the agents for clients—might be forced to merge with jobbers, the market makers and principals, so ending the present system of single capacity in London, ran the argument. These mergers, which would bring about dual capacity, could create conflicts of interest which would endanger the interests of the investor.

So far the Exchange's rules have managed to hold the wall but within the London financial community professionals are wondering how long the Exchange can maintain separate capacity.

There are signs of erosion. The Exchange has decided that the first step in the dismantling of minimum commissions will be taken by introducing negotiated rates on overseas securities. Stock Exchange firms are to be allowed to form from March 31 next year companies for the purpose of dealing in overseas securities. These new companies will be known as international dealers, will be incorporated with limited liability and will deal only as principals.

### New dealerships

It is possible that firms outside the Exchange might be able to take up to a 49 per cent interest in the new international dealerships but a majority of the directors of each company must be members of the stock exchange.

Within the London community the urge to merge is growing in intensity. At present outsiders can only hold a maximum of 29.9 per cent of a member firm but already there bave been a number of significant deals in which banks and financial service groups have taken advantage of the current limits.

Security Pacific, the Cali-

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# Unwelcome hazard lurking in the international arena

## Exchange controls

JEREMY STONE

EXCHANGE CONTROL and international portfolio investment mix about as well as oil and water, whether the cocktail is looked at from the standpoint of a monetary authority or of an investment manager. In the ordinary way of things controls only exist where investment flows are thought to be incompatible with monetary stability (or the desired level of an exchange rate). And net outward portfolio flows can only persist for any length of time if they are balanced by an inflow on current account, under which conditions exchange controls would appear to be redundant.

When UK exchange controls were abolished in 1979, it was indeed largely on the basis that a capital outflow needed to be facilitated to balance the oil-generated payments' surplus on the UK's current account, if the exchange rate was not to rise out of all reason. Since then investment managers of UK funds have taken the hit between their teeth—after a tentative few months—and invest where they see fit.

The contrast between today's freedom of decision with the years before 1979 serves to emphasise the difficulties the authorities can put in the way of fund managers if there is fear of a run on the currency and extinction of the reserves.

### Cumbersome system

The disadvantages of foreign investment under the UK's pre-1979 scheme of exchange controls clearly discouraged UK funds from overseas investment, as was officially intended. After four years off the leash, managers find it quite hard to remember the cumbersome intricacies of a system where all investments had either to be covered by currency loans or financed out of expensively purchased investment currency—scooped from a limited pool at a premium.

For those funds which decided that overseas investment was worth the candle, their performance figures were always at the mercy of currency swings in a more acute way than the simple movements of exchange rates would suggest. This is because the particular arrangements applied by the UK authorities added an extra layer of risk to the normal investment decision, since an investor had to discount the cost of fluctuations in the premium charged for investment currency.

This premium-risk had a habit of working through even to those investments where a fund had tried to avoid it by financing the foreign assets by means of back-to-back loans. The complication used to be that the assets were required to cover 115 per cent of the value of the loan. If Wall Street started to run backwards, for instance, an investing fund could be required to "top np" the value of its asset, by acquiring additional equity. That would involve purchasing investment currency, from a pool on which the premium might well be rising under pressure from other funds trying to cover their loan commitments. The effect of such calls on a fund's progress could be cumulatively debilitating.

Where it is a question of investing in countries which impose controls, an uncomplicated view which tends to be held by fund managers is: "Where there are controls, there people should not invest." The argument is that exchange controls are usually associated with a weak economy, where equity markets might be expected to perform badly and currency depreciation to eat away at any profits achieved in local currency terms. Countries which maintain strict controls—such as India or the countries of Eastern Europe—are apt to support the thesis that controls come in tandem with investment prospects that can fairly easily be bettered elsewhere.

South Africa used to constitute the greatest counter-example to this view in the days when even the holdings of non-resident investors were subject to controls—an era which came to an end as recently as February 1983, with the abolition of the financial rand, a pool of investment currency which owed its existence to the non-resident assets which became blocked after the financial panic caused by the Sharpville shootings of 1961. Early this year, with a gold price temporarily in the $500 region, the Reserve Bank was able to run the usual exchange control argument in reverse, urging the need for dismantling controls if a surge in domestic liquidity was not to boost the inflation rate.

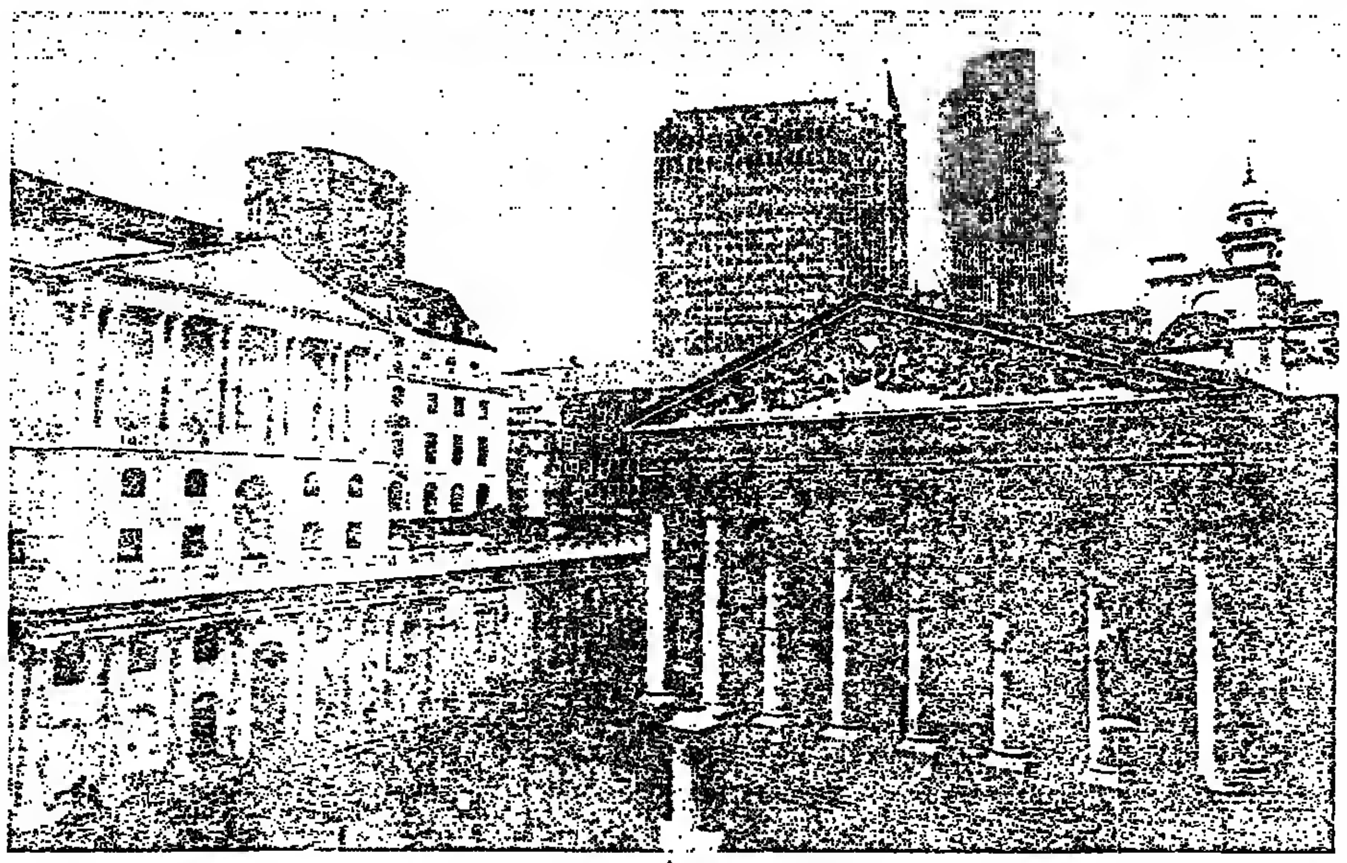
Since then, although decontrol of domestic investment has been on the agenda, things have not been moving in South Africa's favour, and the prospect of liberalisation has receded, leaving South African institutional investors — who have been building bridges towards other financial markets—as the custodians of what must now be the largest pool of blocked currency in the Western world.

### Local adjustments

Moves towards decontrol have so far looked like adjustments to domestic monetary policy; banks have had short-term licence to push their deposits on to the international market when liquidity is running too high, and the mining finance houses have been permitted to leave their gold earnings on external deposit — on a weekly basis, so far.

Financial institutions, like industrial companies in general, can only maka overseas investments in the furtherance of their ordinary business. Thus insurance companies can invest on the London market ooly to the extent that they are strictly covering their sterling underwriting liabilities. For the moment, that is as near as some of the major institutions have come to getting their feet wet — a precondition for their full emergence on the international scene at that point in the future when the Reserve Bank feels the rand is sufficiently secure to withstand political or economic setbacks of the sort to which South Africa is peculiarly prone.

Meanwhile, the South African equity market is beariog almost the full burden of adjustment to the continuing artificial constraint on capital outflows. At present the institutions have a cash flow of around R10m per day, which has to be deployed on domestic assets, and the pressure has resulted in, among other consequences, a tidal wave of take-overs.



The Bank of England (left), supervisor of Britain's foreign exchange position, with (right) the old Royal Exchange and in the background other symobls of the City's financial machinery, the Stock Exchange Tower and the NatWest Tower rising behind it

# London houses

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fornian bank, paid £8m for a 29.9 per cent stake in London's largest broking firm, Hoare Govett, in June 1982. Later that year RIT and Northern, the British financial group, took a 29.9 per cent stake in brokers Kitcat and Aitken. Since the Exchange's deal with the Government Citicorp has announced that it is acquiring a 29.9 per cent stake in Vickers da Costa, which reckons to be the longest established British broker in Japan and, according to recent survey, accounts for a quarter of all foreign equity commissions handled by UK stockbroking firms with foreign equity portfolios.

That deal is worth £20m. Since then Mercury Securities, the parent company of S. G. Warburg, the British merchant bank, has been forging a link with Akroyd and Smithers, one of the largest jobbing firms on the stockmarket, in a deal worth a possible £40m. It is designed partly to expand Warburg's Eurobond activities. Akroyd, five years only in the Eurobond market, is a relative newcomer to that market and the deal is seen as a supplementary rather than a complementary operation to Warburg's activities in this area.

The Warburg-Akroyd deal marks an attempt by Warburg to preserve its position in the London market in the face of increased competition from American rivals.

Two British financial services groups, Mercantile House and Exco, are both looking for links. Mercantile House has said that if it were allowed to do exactly what it wanted "we would buy a jobber and a broker and put the two together at the same time and throw in a merchant bank and a discount house." Exco has held talks with British brokers Wood Mackenzie.

While the British brokers have been featherbedded by a minimum commission structure there has been little incentive for them to look beyond their frontiers for business. They have failed to exploit major new opportunities such as the Eurobond market and, moreover, have failed to tap the retail market, preferring to rely on institutional business.

The official Stock Exchange line is that London's firms have remained tiny and isolated because it is only four years ago since foreign exchange controls were abolished, although other

**FOREIGN SECURITIES HOUSES—LONDON**

| | Number | Staff |
|---|---|---|
| U.S. | 29 | 2,871 |
| Japan | 20 | 816 |
| Canada | 14 | 401 |
| Australia | 11 | 111 |
| Sweden | 2 | 78 |
| Others | 8 | 105 |
| Total | 94 | 4,382 |

Source: The Banker

entrepreneurial financial services groups such as Mercantile, Exco and RIT and Northern have built substantial international businesses.

While British firms look for ways to protect their positions and find suitable and financially sound partners to support their operations at home and abroad, overseas securities houses and banks are already in a commanding position.

Merrill Lynch of the U.S. now employs about 850 staff in its London operation, including the commercial banking arm but is feeling the impact of its expansion worldwide and the fall in commission from fixed income business since mid-1983.

Even so, Merrill Lynch has been flashing the prospect of large salaries before the eyes of British securities analysts in an effort to strengthen and develop its dealing in London listed stocks.

The Japanese securities houses have continued to expand in London, led by the four largest — Nomura International, Daiwa Europe, Nikko Securities and Yamachi International. Staff numbers have increased at virtually all Japanese houses in the past year, with the top four together now employing nearly 500, an increase of 20 per cent over 1982.

In the coming weeks other American and overseas interests will take advantage of the de-regulation of the London stockmarket, while firms on the London stock exchange will be rushing to seek ties with groups with well-established international links. In a few years most of the traditional demarcations between markets and between functions may have disappeared—removing classifications such as "banks," "brokers," "fund managers" or "insurance companies" as the world's financial markets regroup into financial conglomerates.

**U.S. INFLUENCE** American investors, particularly the pension funds, are an increasing force in world stock markets. The weight of money is more than matched, however, by the inward flow from other countries

# Big prizes but competition tough

## Pension funds

TERRY BYLAND

THE IMPACT of U.S. pension fund investment on stock markets outside the home country has been a major factor of the past decade but if present forecasts from the industry are accurate then the greatest impact has yet to come.

U.S. pension funds under management total between $700bn and $1,000bn at present, with about $7bn already invested outside the U.S. According to InterSec research, however, which tracks the industry, investments overseas will have totalled $11bn to $12bn this year and could well surge to around $24bn by 1986.

A number of factors have spurred the U.S. funds towards markets overseas. The repeal of the U.S. Interest Equalisation Act and periods of weakness for both the dollar and Wall Street combined to force pension fund managers to look around for new opportunities.

In terms of legislation the industry has as its guide and mentor the Employees Retirement Income Security Act, now nearly a decade old. ERISA has set the framework for much that has happened in the industry since 1974 and its provisions have considerable significance for non-U.S. managers seeking to manage U.S. pension money outside the U.S.

ERISA required U.S. pension funds to be managed "with prudence" but it avoided any temptation to take over administration of the industry from the fund managers themselves. The original legislation has been refined and modified by case rulings in the courts and by legal opinions from the Internal Revenue Service and Department of Labor but the general guidelines have remained unaltered.

The "prudent management" requirement effectively established the principle that pension funds which did not employ professional and responsible management techniques would be held responsible if their members suffered. This alone opened up opportunities for foreign managers to enter the U.S. pension fund market, which in pre-ERISA days had been highly insular.

When foreign investment was called for, usually in the case of U.S. multinationals which had workforces outside the U.S., it was customary to appoint a foreign fund manager almost automatically. But nowadays, with U.S. pension investment abroad ballooning, there is growing competition between the U.S. and non-U.S. managers for this lucrative area of business.

### SEC register

Money managers seeking to manage U.S. pension investments outside the U.S. are effectively required to register with the Securities and Exchange Commission (SEC). (Banks and insurance companies are already effectively so registered with the regulatory bodies for their respective industries.)

At the end of last year, the SEC list of 75 registered managers showed an almost even split between foreign and U.S. names. But the list has been growing rapidly and industry sources expect to see more than 100 names on it within 18 months.

Moreover, of the 36 new appointments to manage funds overseas recorded last year, 14 went to non-U.S. managers and another four to joint U.S.-foreign managers.

Evidently the locals are making a stronger play for the business of managing U.S. pension fund investment outside the U.S. and bankers from London, Zurich and Tokyo will be finding the going harder as the opportunities expand.

U.S. funds tend to look for overall global investment experience rather than for expertise in any one national market. The funds have tended to see Europe and the Far East as complementary rather than competitive areas for investment and the proportions of investments in specific areas mirror the size of the national stock markets in the international league.

The largest of the U.S. corporate pension funds, American Telephone and Telegraph, aims to put about 5 per cent of its total fund outside the U.S. The size of the total is a matter of some speculation at present because although current assets are $54bn, some of these will be spread among the five new operating companies when the existing company structure is broken up on January 1 next.

AT & T picks managers for its overseas investments on the basis of their global skills and leaves to them the question of how much should be invested in any one market. This follows the line of ERISA which said that funds should diversify but made no requirements on how or where such diversification might be effected. The manager who can offer global investment skill has a wide world to play with.

The U.S. pension industry and those from overseas who seek to share in its management await with awe the outcome of the division of AT & T into its operating companies. At present it seems that several of the newly formed operating companies will leave management of their pension schemes in the hands of the parent until they feel ready to undertake control themselves.

### Protect rights

Other areas that have proved somewhat thorny for the post-ERISA industry have focused around the requirement that the U.S. funds should be funded. ERISA was enacted not to show the fund managers how to manage but to protect the pension rights of the members.

In the years before ERISA a surprising number of the smaller U.S. corporate pension funds were under-funded. Fortunately, most of these problems were put right before the onset of recession in U.S. industry exposed redundant employees to the mercies of unfunded schemes at bankrupt companies. Only a few schemes are now open to question over funding but ERISA has ensured that there can never be a repetition of past scandals.

But funding problems still abound in the state and public service pension sectors, which have total assets of $233bn. These unfunded plans are a sore point both with the industry and with the public service itself. Public service plans were excluded from the original ERISA legislation and have so far remained so. In that sense they remain the largest potential area for new managers to enter the U.S. pension fund industry.

Congress has tried to introduce legislation over public service pensions annually since 1978, when a Congressional report outlined the funding problems. Current proposals before Congress still exclude specific requirement for the funds but it seems inevitable that such legislation cannot be far away. When it comes it will create a considerable demand for professional fund managers since the smaller state funds are often lacking in such expertise.

However, while the opportunities for professional management in the U.S. public service pension sector are undoubtedly substantial it could prove a difficult market for an outsider to enter.

One area where modification of the ERISA legislation has opened up opportunities for the non-U.S. banker or fund manager is that of custodianship of U.S. pension fund assets.

Under ERISA U.S. funds were required to place their foreign assets within U.S. jurisdiction, which meant inside the vaults of a U.S. bank. But this position has been restated to allow assets to be deposited abroad in the vaults of a suitably qualified foreign bank.

While custodianship is not the same as management, this change has opened the door for many non-U.S. banks to offer U.S. pension funds a wide range of dividend payment, stock transfer and similar services.

The next few years will be a challenging time for international fund managers. The opportunities provided by the rapid expansion of U.S. pension funds into overseas markets will be substantial. But the U.S. banks are determined not to allow the foreigners to take away too much of the business.



# Foreigners head back on the equity trail

## Investment flows

TERRY DODSWORTH

IN 1983 U.S. investors have rediscovered Philips in Holland, propelled the Swedish Stock Exchange to dizzy heights, and called the turn on ICI in a way that wrongfooted a more cautious City of London. These are not isolated or bizarre incidents. They demonstrate the underlying trend towards the steady internationalisation of investment, a change in which U.S. investors, activated by a new attitude in the investment funds, is now participating more and more.

Yet despite the financial weight of the U.S. investment community, these trends are even more evident in the flow of funds in the opposite direction. In 1981 non-U.S. investors moved in on the Wall Street equity market; last year they injected an unprecedented amount into U.S. Treasury Bills; this year they have switched back into equities as they have caught on—somewhat tardily—to the bull market.

The emphasis on the bill market last year mainly derived from the combination of high interest rates on offer and the extreme depression of the stock market until it bottomed-out and rebounded in early August. With global financial conditions in an unsettled state, money automatically gravitated towards the soundest and highest yielding instrument — the so-called flight to quality. Figures produced by the U.S. Securities Industry Association (SIA) show that foreign holdings of U.S. Treasuries climbed by $17.3bn to an estimated $83.5bn during the year.

Far less interest was shown in equities. The foreigners stayed on the sidelines as the market began to move in August and only seemed to convince themselves that it was a genuine upswing in the final quarter. Between the second and third quarters of the year net purchases of U.S. equities fell from $975m to $355m before investors did a dramatic about turn and pumped $1.5bn into the market in the final three months.

This change of sentiment has continued into the current year. In the first quarter net purchases of U.S. equities jumped by 72 per cent from the previous quarter to $2.7bn—very close to the all-time quarterly peak of $2.9bn reached in the second quarter of 1981.

With interest rates in decline and the stock market rising, foreigners had no hesitation about shifting their attention from corporate bonds to equities. Foreign investors made net sales of $39m of U.S. corporate bonds in the first three months of this year and of $178m in the fourth quarter of 1982, whereas they had purchased $1.6bn in the first nine months of last year. Most of this change was accounted for by the West Germans, who swung from net purchases of $276m in the fourth quarter to only $37m in the first quarter of this year as the interest rate differential narrowed and the U.S. stock market took off.

At the same time the enthusiasm for U.S. Treasury bills remained unimpaired. Foreigners increased their holdings by 5 per cent from $83.5bn at the end of 1982 to $87.7bn in the first quarter. Indications are that much of this activity came from individuals and institutions rather than governments, who cut down their intervention in the foreign exchange markets during this period. Rates inched up to 10.86 per cent at the end of March from 10.61 in December. German investors made net purchases of $2.7bn against $929m by the UK.

The Europeans were by far the most active participants in the resurgence of equities, setting a record of net purchases of $2.4bn in the first quarter. The leaders of the charge were quite unquestionably the British, who bought $1.2bn worth of U.S. shares against $536m by Swiss investors and $447m by the West Germans—despite the official foreign exchange restrictions on their foreign investment activities.

The French also increased their net purchases from $4m to $107m between the final quarter of last year and the first three months of 1983.

For U.S. investors the attraction of overseas markets began to increase markedly as interest rates went sharply into reverse in the middle of last year and forecasters began to predict a decline in the dollar. Throughout 1981 and most of 1982 interest in overseas markets was virtually nil — U.S. investors apparently taking the view that yields from overseas investments would be slim while the dollar's strength lasted. But in the fourth quarter of last year the increased flow of funds from the U.S. resulted in net overseas purchases of $1.3bn. In the first quarter of this year there was some slippage but net purchases still amounted to $994m, with investment in Japan coming top of the list at $339m, with a heavy concentration on the UK ($207m) and France ($150m) in Europe.

Enthusiasm for Japan resulted from a combination of firm interest rates designed to protect the yen, which depreciated by only two per cent against the dollar in the first quarter, and the feeling that Japanese equities will be substantial beneficiaries of the recovery in the U.S. economy.

Net purchases in the UK, though still high, dropped by 15 per cent — a reflection of the uncertainties surrounding the General Election — while the enthusiasm for French stocks seems to have been based on equally strong political assumptions. In this case the market seems to have been gambling on the Mitterrand Government taking strong action to reverse its earlier policies and work towards making French industry more competitive, a judgment that has proved right so far.

As a result of the increasing degree of international involvement performance analysis has become a highly complex business

# Measurement embraces a host of checks and tests

**Performance**

BARRY RILEY

THE EXPANSION of international portfolio management has created another layer of problems for the investment statisticians who set out to measure performance.

Even at the level of domestic portfolios measurement techniques have become quite complex. It is normal in the UK, for example, to split portfolios up among different asset classes—for example, between gilt-edged, equities and liquidity.

Within each class it is possible to assess the performance of the fund manager against an index—the FT-Actuaries All-Share Index being the normal yardstick for an equity portfolio. Any divergence of performance from the index—positively or negatively—can then be attributed to the manager's stock selection decisions.

In the U.S. it is common to make a further test for portfolio risk. Some stocks are more volatile or risky than others. In a good market a fund manager may appear to perform well with risky selections but he may come unstuck when conditions turn sour. A risk-adjusted performance measure should, therefore, give a better idea of the manager's long-term competence.

Another test of the manager's qualities, however, is his ability to vary his allocation of assets among different markets. If he builds up liquidity during a bear market he will outperform, at least to the extent of showing a smaller capital loss than a rival who chooses to stay fully invested. So for broadly based portfolios such as those of pension funds it is common to monitor the effect of asset allocation decisions too.

### Asset structures

The assumption here is that there is a conventional, or average, fund against which it is useful to measure the relative asset structures of individual portfolios.

When it comes to international portfolios still another dimension is added, with currency movements adding to the volatility of individual asset values. It can be argued that currency strategy decisions should be taken separately from decisions to invest in underlying markets—the separation being implemented by currency hedging techniques.

In practice the separation of these decisions is not always very useful, since strong currencies tend surprisingly often to be associated with strong securities markets. But this is not a hard and fast rule, especially not in the dollar markets where high interest rates push up the currency but depress the bond and equity markets.

An indication of just how complex the measurement of the investment performance is becoming was given by a recent paper by Mr G. M. Morrison of consulting actuaries Bacon and Woodrow. The following list comprises the "bare minimum requirement" for the investment manager.

For total assets:
- the return due to currency strategy selection;
- the return due to market strategy selection;
- a volatility measure.

For each asset class:
- the return attributable to currency movements;
- the return attributable to market movements;
- the return attributable to security selection.

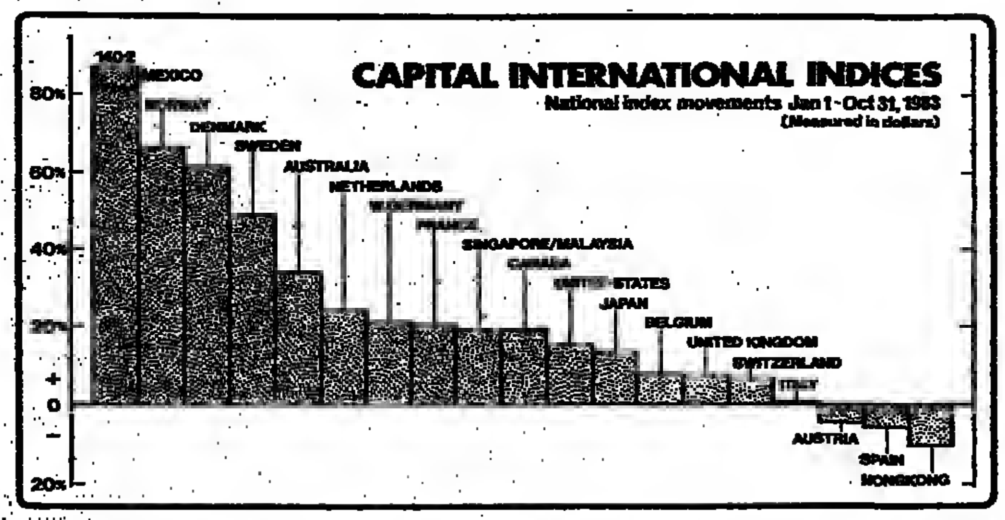
In practice, of course, fund managers find it virtually impossible to handle such multidimensional choices and they tend to narrow their focus. One very common type of international fund, for instance, concentrates on bond and currency decisions where the underlying markets tend to be large and the currency markets, at least, can be helpfully inefficient because of the tendency of governments to intervene.

The measurement problem might seem to be easier here but one problem is that bond markets are particularly ill-served for indices. Short-dated bonds may move differently from long-dated, so it may be necessary to pick, somewhat arbitrarily, a "typical" medium-dated bond as a yardstick. This can severely reduce the precision of the analysis.

However, Salomon Bros. publishes a series of bond indices for different currencies; along with an overall World Bond Index these are used for monitoring purposes by advisers such as Frank Russell.

It is with equity funds that the most elaborate analysis is possible. The key to this is the existence of the international equity indices published by Capital International (CI) in Geneva. These indices are well constructed and comparable and cover both individual countries and world-wide industrial classifications. They all roll up into the World Index, with some 1,100 constituents in 19 countries.

It would be impracticable to use the much better known national indices like the Dow Jones in the U.S. or the Hang Seng in Hong Kong—they are highly variable in coverage and construction. But it is a disadvantage that the CI indices are hardly used except for the very specialised purpose of international comparison.




### Considerable ease

Moreover, the coverage of the CI indices is not always above criticism. For instance, brokers Wood Mackenzie, who currently measure over $6.5bn of international portfolios, find it anomalous that international fund managers appear to be able to outperform CI's Japanese index with considerable ease.

A particular advantage of the CI indices, however, is that it is possible to tailor an index for a particular purpose. For instance, an important type of international equity portfolio is the ERISA fund, which gives overseas diversification to an American pension fund.

Since these are invested outside the US it is inappropriate to measure them against the World Index, which is quite heavily weighted in favour of the huge US equity market. So there is a widely used Europe, Australia and Far East (EAFE) Index, covering 771 companies, which the ERISA fund managers aim to beat.

How have they performed in practice? Reasonably well, it appears, on the basis of the "universe" of funds monitored by Wood Mackenzie. Over the three years ended June last the equity return achieved was 11.7 per cent annualised, against only 7 per cent for the EAFE index.

Closer inspection shows, however, that much of this outperformance can be traced to Japan, where the portfolios are heavily invested—sometimes to the extent of almost half their total assets. The annual return over three years has been 23.5 per cent, *against 12.7* per cent on the CI Japan index. Indeed, in the 12 months to last June the universe funds achieved a return of 51.5 per cent in dollar terms on Japanese equities—beating the 33.4 per cent index return by an astonishing margin.

The point is emphasised by Wood Mackenzie's further breakdown of performance between market selection and individual stock selection. Over a number of recent quarters the funds in aggregate have gained little from being in the better individual markets—but only from stock selection and that chiefly in Japan.

The explanation is not entirely clear but it must have something to do with tha kind of share bought by international funds in Japan in tha recent past. It would probably be wrong to imply that the CI Japan Index is unrepresentative of the Japanese market as a whole. But it *does* appear to be unrepresentative of Japanese portfolios of international funds. In fact, GT Management privately calculates a "foreign favourites" index for Japan.

There could be signs of a similar effect in the UK, where shares like ICI and Glaxo have been pushed up disproportionately by overseas—notably American—investors.

The conceptual question is therefore whether international portfolio performance should be measured against rigid indices or against the average returns being achieved by similar international funds.

There is also the question of risk analysis. The detailed statistics of volatility available in the U.S. do not exist across the world's markets, so adjustments cannot be done with any great precision.

It is common sense to recognise, however, that it is riskiar to go into the smaller or more volatile markets like those of Hong Kong, Sweden or Italy—let alone into exotic Third World markets like Mexico or the Philippines. Such markets are exhilarating when they are going up but death-traps when they are plunging down.

The biggest market in securities — and in constant flux

# Household names among favourites in a wide range of tastes

**Eurobonds**

MARY-ANN SIEGHART

THE ARCHETYPAL Eurobond investor is the Belgian dentist, or so the story goes. He is rich, he likes borrowers to be household names, but above all he wants a guaranteed rate of return on his investment.

In reality, of course, it is not that simple. It is notoriously difficult to find out who buys Eurobonds. They are bearer bonds, which means that there is no central ownership register and they are sold over the counter. Even bond salesmen do not know who the end-investors are—they may do a trade with a bank but they have no idea whether the bonds are destined for an individual investor or a central bank.

A quick trawl around the market produced alarmingly different results. "I'd say it was about 80 per cent private and 20 per cent institutional," said a senior new issue manager at one of the top London-based new issue houses. "Every two or three years people start saying that the traditional buyers are losing ground to the institutions. Then you find things are being bought on a retail basis again."

One of the big German banks, though, put the figures at 85 per cent institutional and 15 per cent retail. And guesstimates from British, Swiss and Canadian banks covered the entire range in between.

But if it is impossible to determine a breakdown for the total investment in Eurobonds, it is easy to discern tastes for different types of issues.

The retail investor's favourite issuer is a U.S. corporation with a household nama and a good credit rating. The darlings of the market are borrowers like Campbell Soup, IBM, Coca Cola and McDonald's. They can get away with paying coupons of up to half a point less than less-favoured names.

Tha privete investors seem to be less risk-sensitive than the institutions. They will also lap up high-coupon issues from borrowers—preferably corporations—with lower credit ratings.

### Cold shoulder

Reasons for liking or disliking a borrower are often more subjective than rational. For instance, Swiss investors are wary of issues from Finland "because it is too close to Russia" said one Swiss banker. When M Mitterrand's Socialist government came to power in France, French bonds were given the cold shoulder.

Bonds with an equity content have become increasingly popular with private investors over the past year or two as stock markets all over tha world have gathered pace. In the Swiss franc market there has been a heavy flow of convertible issues from Japanese companies, with coupons recently as low as 3 per cent.

In the dollar market bonds with warrants to buy the borrower's shares soared to very high premiums in one feverish week in May then stabilised at slightly lower ones. The German market followed suit.

In terms of currencies, individual investors are most prominent in Canadian and Australian dollars and the European Currency Unit (Ecu), which is a basket currency made up of all the currencies in the European Monetary System plus sterling.

Canadian and Australian dollar bonds tend to carry higher coupons that those on U.S. dollar bonds, and Ecu bonds are particularly attractiva to investors from the Benelux group of countries who would like to hedge against depreciation of their own currency.

Institutional involvement, on the other hand, is concentrated more in the U.S. dollar and D-mark sectors of the Eurobond market. The major institutional investors are commercial banks, central banks, insurance companies and pension funds.

To them, the credit rating of the borrower is very important—they are more likely to buy issues from supranational organisations like the World Bank or the European Investment Bank than from McDonald's, particularly if the former have a higher coupon.

This year the one sector that has come to the fore for the institutions is the floating rate note (FRN) market. FRNs are bonds whose coupons are pegged to short-term interest rates. The coupon will typically be readjusted every six months to reflect prevailing interest rates.

These are obviously attractive in times of uncertainty about the direction of rates. If you are locked into a fixed-rate bond and rates rise, tha prica of the bond will fall and you face a potential capital loss.

But there is another reason for the increasing institutional involvement in floaters. FRNs are slowly taking the place of syndicated loans as bank assets—as witness the case of Sweden, which has borrowed $2.2bn in the FRN market so far this year.

For banks which have difficulty finding good enough credits to lend to, investing in FRNs is ideal. There is a very liquid secondary market, particularly in tha "jumbo" issues of $500m or more, and if a sovereign state were forced to reschedule its debt, a public bond would be the last vehicla to suffer. Even Mexico is still up to date on the interest payments on its outstanding bonds.

### Greater liquidity

Moreover, this institutional interest feeds on itself. The more money that goes into the FRN market, the larger the issue can be and the greater will be the liquidity. FRNs have become money market instruments.

Meanwhile, the general pattern of ownership in the Eurobond market is unlikely to change much. Tha market is in continual flux—Opec money disappears, for example, and is replaced by investment from U.S. savings and loan institutions—but the Belgian dentist will carry on having his portfolio "stuffed" by Swiss banks as long as they continue to manage bonds and the institutional fund managers cannot afford to ignore a market which last year overtook the U.S. domestic corporate market in volume terms.

Three important centres of international investment management are examined by our correspondents

# Concentrating on the domestic market

## New York

WILLIAM HALL

NEW YORK may well be regarded by some people as the most important financial capital in the world but when it comes to international investment management it lags far behind centres like London and Geneva in terms of skills.

New York investment managers have traditionally concentrated on investing in their domestic market and when they venture overseas they look abroad for advice. Even though the flow of U.S. pension fund money into overseas markets has jumped from $1.75bn in 1979 to an estimated $11bn currently, the Stamford, Connecticut-based InterSec Research Corporation says that there are only a handful of international managers who are running these types of portfolios from a U.S. base.

Putnam in Boston or Scudder in New York are examples of U.S.-based managers who have built a reputation for running international portfolios and have been successful in raising substantial sums of money to manage internationally. But they tend to be more the exception than the rule. Nearly all the investment management firms looking after the overseas investments of U.S. pension funds have London operations where the investment decisions are made.

Malcolm Mitchell, a vice-president of InterSec, says his firm has just completed a survey which shows that over half of the U.S. pension fund officers it polled preferred to run their oversas investments through a London-based manager.

New York is still relatively parochial in international investment terms and U.S. investors are still attracted by the more international atmosphere to be found in European financial centres. This might seem slightly odd given the major international thrust of the big U.S. brokerage houses like Merrill Lynch and Salomon Brothers but investment managers of U.S. pension funds appear to feel that as these types of institutions are big traders and underwriters they prefer, on balance, to use another sort of firm to give them investment advice.

### Joint ventures

This preference has been a bonanza for London merchant banks and Continental investment managers like Julius Baer or Lombard Odier who have beaten a path to New York to sell their skills.

Some, like the London merchant bank of Robert Fleming, have established joint ventures. Fleming has linked up with the Baltimore firm of T. Rowe Price and formed Rowe Price-Fleming International. Emper Murray Johnstone is another example. The U.S. firms provide the marketing know-how and the European partner provides the investment skills, normally.

Many European investment advisers have opened their own offices in New York to hunt for business but they are facing strong competition from the big U.S. banks such as Morgan Guaranty, Citibank and Chase Manhattan which have a big international presence and do not suffer the same potential conflicts of interest as the U.S. brokerage firms when it comes to giving investment advice. Morgan Guaranty is probably the biggest single international manager of U.S. pension fund money overseas.

It has always been one of the biggest domestic money managers and when U.S. investors started moving into international markets it was quick to follow with its own advisory team. However, this is based in London; the argument tends to be that this is where the expertise is to be found so its staff needs to have access to it.

How long New York will lag behind foreign centres in terms of its international investment advisory skills is a moot point. It is not always a good idea to be surrounded by dozens of other investment managers when making strategic international portfolio decisions. The Scottish investment managers have proved that there is no particular drawback in being located in less prominent places like Aberdeen or Dundee.

If the bulk of U.S. institutional investment internationally is going into Europe and the Far East it could be argued that New York-based mid-way between the two markets is a better location to manage the funds than London or Tokyo.

# Well-placed centre with advantages

## London

BARRY RILEY

THE CITY of London survived 40 years of exchange controls to emerge in 1979 strongly placed to benefit from the worldwide upsurge in cross-border portfolio investment in equities.

As an island the UK has a very long history of international investment, going back to the ill-fated South Sea Bubble and beyond. At the end of the last century the Scottish investment trust movement grew rapidly as a channel for the savings of the Victorian middle classes, seeking the high returns available on the big new investment opportunities in the Western hemisphere.

British investors were heavily involved in both North and South America — and of course followed the flag in Africa, Asia and Australasia. There was a tradition of looking overseas and although exchange controls largely halted the outflows just before World War II, there remained substantial portfolios in place even after the costs of the war and its aftermath.

The protracted period of exchange controls more or less finished off foreign securities trading on the London Stock Exchange but at least the Bank of England allowed London to develop as a substantial international banking centre, so that the infrastructure was in place for the post-1979 revival of overseas investment.

Enthusiasm among British investors for international diversification quickly revived. Today the investment trusts still remain big overseas investors, holding £4.6bn of overseas equities at the end of last year out of total portfolios of £10bn or so.

But they have been overtaken by long-term insurance funds, with nearly £5bn overseas at the same date, while the pension funds are net investors in foreign equities to the tune of £1.5bn a year, for a current total of some £10bn.

By the late 1970s the American institutions, notably the pension funds, began to develop a taste for international diversification which had previously been almost unknown in a country where the full spectrum of investment opportunities had appeared to be available internally.

The lack of outward-looking expertise in New York encouraged pension plan sponsors to seek overseas investment management talent and London has been well placed to pick up this business. Indeed, several U.S. banks and investment groups like Morgan Guaranty, Chase Manhattan and Fidelity have established their own operations within the City's boundaries.

As an international centre London has a number of advantages besides its historical expertise and its tradition of ethical dealing.

Geographically it neatly straddles the time zones. The globally minded investment manager can talk to Japan and Australia in the morning, to Europe and Africa during the day and to New York during the afternoon. He will not even have to stay too late in the office to get in touch with California, despite the eight-hour time difference.

The English language is an advantage too, especially in picking up business from Americans who are bound to feel more comfortable in London than in some of the other European centres. But at the same time the British fund managers have had to learn some of the esoteric jargon of the U.S. portfolio management industry, with its emphasis on risk analysis and active/passive strategies.

Travelling facilities from London are also second to none, at least in terms of international air routes, but high rents and delays in installing telecommunication equipment have sometimes posed problems in the past. More recently, though, availability and price of office space have become more favourable and the threat of privatisation has done wonders in shrinking British Telecom's waiting lists.

### Research

The financial infrastructure in London is also an advantage. Besides a wide range of foreign banks, the City also boasts a good representation of overseas securities houses from the U.S. and Japan, plus a sprinkling from other countries such as Canada and Australia.

Moreover, London brokers are these days able to supply high quality international research and there are both British and U.S. performance measurement services on the spot.

Even so, London's facilities are not overwhelmingly superior to those offered by several Continental centres in the Netherlands, Switzerland or Luxembourg. But the Continental specialisation has been very largely in the management of bond funds. While this is of course big business, it has not recently been showing the same growth rate as equity fund management.

To the extent also that Continental fund management houses have become involved in equities they have usually concentrated on Wall Street. Clearly this is not the kind of specialisation that the Americans are looking for when they seek international exposure.

London's much broader expertise has therefore come into its own. Most important, the colonial links with Hong Kong have encouraged the British to develop their connections in the Far East in general and Japan in particular.

Of course the Hong Kong connection is not one which British international fund management houses currently regard quite so favourably as in the past. But then Japan is a vastly bigger equity market than Hong Kong ever was.



# Swiss turntable gathers speed

## Switzerland

JOHN WICKS

THE SWISS banking system has long been one of the world's most important specialists in international asset management. Demand from an extensive foreign clientele—but also the large amount of domestic funds looking for a home—has led to the creation of a broad range of portfolio management and investment counselling services. Billions of dollars are constantly being dropped on the Swiss turntable, both through the parent banks and to an increasing extent via foreign branches and offshore subsidiaries.

It is impossible to put an exact figure on the sums involved, since these are not included on the banks' balance-sheets. Estimates do exist, however, and indicate that probably at least SwFr 500bn-SwFr 600bn and at most SwFr 1,000bn is accounted for by money administered on behalf of clients and at clients' own risk. Certainly the banks — particularly the Big Five, the private (and ex-private) bankers and the foreign-owned banks — are doing very big business in this sector. Together with other "financial services," fund management operations are coming to add up to an increasingly large share of total activities.

One of the best known forms of asset management in recent years has been the fiduciary account. Held primarily by foreigners, these are client-risk investments in the money market, mainly in foreign currencies and almost entirely outside Switzerland. As an important feeder to the Euromarket they expanded to very large amounts when short-term interest rates were high and are only now showing signs of flagging. By mid-1983 the total volume of fiduciary assets abroad had reached no less than SwFr 182.2bn, or the equivalent of nearly 40 per cent of the combined assets of the 71 main Swiss banks.

Fiduciary investments, which are not subject to 35 per cent withholding tax, provide one of the most popular channels to the short-term market, particularly since there is only an embryonic money market in Switzerland itself. Investments are normally of at least SwFr 100,000, with commission of 0.375-0.5 per cent per year. Yield varies according to Euro-rates.

Swiss banks also act as intermediary in the acquisition of foreign—largely American—money market paper, mainly Treasury bills, but also CDs (partly of the banks' own branches abroad) and other instruments. Here too most clients are foreigners, who pay a commission in the region of 0.25-0.375 per cent.

A classical portfolio management mandate may in some cases be possible with minimum assets of SwFr 100,000 but in fact business generally does not start to be interesting for a bank until a sum of SwFr 250,000 is available; most portfolios are today likely to be some SwFr 500,000.

The mandate, according to guidelines issued by the Swiss Bankers' Corporation, is limited to "usual banking transactions which can be considered as traditionally belonging to the sound administration of assets" —such as the purchase and sale of securities and precious metals, fixed-term, fiduciary and other accounts and sub-participations in credits.

Few investors, even large-scale institutionals, go it completely alone these days. The banks' investment programmes are tailor-made for individual clients but virtually everyone makes at least some use of their advisory services. Apart from the excellent international connections of even relatively small Swiss banks, investment strategies benefit from the fact that all of the country's important stockbroking operations are in the hands of the banking system, while at least some of the major banks have a substantial share in the international issuing sector. An important part of all new top-quality Eurobond issues in almost all currencies, so Swiss Bank Corporation claims, goes to portfolios managed by Swiss banks.

### New markets

The banks have recently been finding new markets for asset-administration services among institutional investors. Last year this led to the formation of SBC Portfolio Management International in New York as the first Swiss bank activity of its kind (the handling or exclusively large funds), while the Julius Baer group set up its GLOFIM ("Global Fixed Income Management") to administer pension fund portfolios on the U.S. market. Swiss banks have long worked closely with the fast-growing and very wealthy pension funds in Switzerland itself. At the same time this year has seen a marked growth in their numerous offshore portfolio management facilities in the Caribbean.

Everything points to a speeding-up of the turntable. The private banks, which say they administer over SwFr 60bn of funds, have fiduciary business alone equal to over a third more than their balance sheet total at the end of 1982, while the foreign banks are also claimed by the National Bank to have fiduciary funds in excess of their balance sheet. Simultaneously, banks are at long last seeing an upswing in their affiliated unit trusts.

The last word has not been spoken on the management of portfolios in Switzerland. An interesting example of a new departure is that of Dr David Feder, formerly a big bank executive and now an independent "financial consultant" in Zurich. He sees himself as a sort of contractor in the field, offering an all-round financial services package to carry out operations more cheaply than would be possible by the client himself. This includes obtaining optimum conditions from banks and checking rates and prices to see whether they really correspond to latest market terms. "I'm almost a broker," says Dr Feder — a statement which points to a fresh approach to the whole placing of asset administration business.

# FUND MANAGEMENT XI

Three profiles of widely different investment houses with active roles in the management of international funds

Morgan Guaranty

## Hunting for the big game

MOST CHIEF executives' offices in the City provide some clue to the progress of their business, with mementoes of their happiest client relationships usually parked about the room like the wall trophies of a big game hunter. Few can provide quite such an illustrative guide, though, as the office of Karl Van Horn, the London-based head of Morgan Guaranty's international investment division.

Sitting in one corner is a daruma, a painted wooden head traditionally given as a gift in Japan to bestow good luck and the strength to persevere. Van Horn painted in one of its eyes when he arrived in London in 1978 and identified Morgan's international goal: to build up the funds under management to the point where no net new accounts can be accepted.

The head must collect its second eye only when the goal is attained—but it should not have long to wait. The department now manages about $5bn through its offices in London, New York, Singapore, Hong Kong and Tokyo. Half comes from U.S. pension funds and half from non-U.S. institutions, though very little business comes from the UK itself.

Object number two points to the biggest reason for Morgan's growth over the last year. It is a royal flag from Brunei, its orange and green drapes pinned elegantly to the wall. Morgan was one of the four beneficiaries last August of the Brunei Investment Agency's decision to reassign the $6bn hitherto managed by the Crown Agents. As much as $2bn is believed to have gone Morgan's way, though precise figures have never been disclosed.

### Key strengths

Van Horn insists that his department never made an active pitch for the Brunei funds. Rather did Brunei's offer of a management role exemplify the benefit to it of two key strengths: its established reputation for consistently high performance and its "supportive business environment," meaning the contacts as well as the prestige of its Morgan Guaranty parent—the group's bank has enjoyed a close relationship with the Sultan of Brunei for some years.

Less incongruous than one might expect, arrested in mid-step half way across the senior vice-president's coffee table, is a third clue to Van Horn's success: the wooden model of a dinosaur's skeleton. It was donated, he says, by a former U.S. client anxious to keep the Morgan department aware of the dangers of growing too big.

Morgan does in fact set great store by its flexibility. Of its U.S. funds, about one-quarter are put together into a co-mingled fund while the rest are invested separately. Elsewhere, co-mingled unit trusts have been established where appropriate for tax reasons, most notably for Australian clients, but most non-U.S. funds are still kept separate and handled according to specific client guidelines.

Nor is the internal management structure bristling with over - elaborate power hierarchies. The department has 30 individuals involved directly in portfolio management and research, plus another 60 in supporting operations; but Van Horn shrugs off any attempt to identify a pyramid of responsibilities.

Finally, Van Horn's office contains a small symbol of that other prerequisite for any successful fund manager: the readiness to spend long hours travelling the globe in search of business. He has a desk-bound model of an airliner from the Gulf Air Fleet, given by the government of Qatar for whom Van Horn works in an individual capacity as an investment adviser. It is an appropriate reminder of the fact that he still spends about one half of his time away from the office in London.

The purpose of all this travel, however, has changed in a fundamental way. About a year ago Morgan took the decision to concentrate its marketing efforts only on prospective clients with very large amounts to invest. "We are now on an elephant hunting expedition," says Van Horn. How big the elephant might be, financially speaking, he is unwilling to divulge.

What is clear, though, is that one or two more elephants anything like the size of Brunei are going to be enough. When that point is reached—and Van Horn thinks it will be within the next 12 months—Morgan's investment managers will take on new accounts only as old ones fall away—and Van Horn will be the proud owner of a two-eyed daruma.

**D. Campbell Smith**

Lombard Odier

## Ready to move into new areas

Lombard Odier has been long established in investment securities circles. A privately owned bank, it was established in Geneva in 1798 but the London arm, originally designed just to service the group's ERISA business, is very much a newcomer. Lombard Odier International Portfolio Management (LOIPM), tucked away in a quiet City street near the Guildhall, was formed in 1978. At present it runs three distinct types of investment management business and is seeking to add a fourth; others may well follow.

The main strand of the operation in London is the management of ERISA accounts. This type of business, which stems from the U.S. employment legislation has been an important source of new income to the serious players in the international fund management market and has enabled LOIPM to develop in the past few years.

Morgan Guaranty, the U.S. investment house with a strong presence in London, is clear leader in this field. Britain's Morgan Grenfell almost certainly leads the rest as far as the home-grown investment management houses are concerned. GT Management is also known to be a front runner, while LOIPM, with an approximate $250m of ERISA funds under its control, is generally reckoned to be another.

Manangement of captive insurance company accounts is another prominent source of revenue. LOIPM enjoys a high profile in this Bermuda-centred sphere, enjoying strong growth largely from fixed income investments and the rising number of group captive formations. Funds under management in this sector amount to about $120m.

LOIPM broke cover earlier this year when it linked up with Nomura and Merrill Lynch, two of the most powerful brokerage houses in Japan and the U.S. respectively, to form the SCITECH fund management joint venture. LOIPM manages the European end of this specialised technology mutual fund. Its successful debut has enabled LOIPM further to expand its investment management team in London.

### Strong rivalry

Mr Millar Law, a recent recruit to the London board, says the next step will be to add UK pension fund management to LOIPM's range of services. Mr Millar Law and his colleagues appreciate that pension fund management is a highly competitive field and, if the pecking order is somewhat less sharply defined as in, say, ERISA accounts, they know that they face strong rivalry from the major merchant banks and some of the independents such as Geoffrey Morley and Ivory & Sime.

But LOIPM is confident that it has both the pedigree and the expertise to expand its $500m management base into new areas.

"The Swiss connection," says Millar Law, "is very important, it sets us out from the crowd. We have 15 management people in London but Geneva has 30 in a large research department and we get a lot of input from that side." As a result he believes that "we have a depth of research in European securities unmatched by any other London institution."

Another key point, the LOIPM team claims, is the structure and specialisation of their research. Analysis is split into five teams, three concentrating on geographical regions—North America, Europe and the Far East—and two majoring in the commercial sectors which LOIPM regards as the key to real growth in the foreseeable future.

These fall into two broad categories: technology, which embraces electronics and healthcare; and services, which incorporates both business and financial services. There is a useful cross-fertilisation with the Japanese and American SCITECH partners in company visits and data sharing.

These specialised teams have been established to bring a mix of financial and industrial expertise.

The research and fund management is co-ordinated by a group strategy committee which meets alternately in London and Geneva every fortnight to decide Lombard Odier's macro-economic view of the world and to shift, where appropriate, its basic asset allocation matrix.

Just as the Geneva background is thought to heighten LOIPM's London attractions, its success in the ERISA business, difficult to break into and totally performance-orientated, gives what the group believes is a window into its affairs for potential clients. In a rather more negative sense LOIPM's says that its devotion solely to fund management eliminates any potential conflict of interest created by, for example, active corporate finance advice to clients.

**Ray Maughan**

GT Management

## Cosmopolitan approach pays off

GT MANAGEMENT is one of the most cosmopolitan of all UK investment houses, both in its clientele and in its spread of investments. It is also one of the most systematic and analytical in the way it decides which markets to buck.

The company was formed in 1969 by Mr Tom Griffin and Mr Richard Thornton (hence the name GT), who both remained at the helm until earlier this month when Thornton, the head of the investment committee, resigned.

Today GT has almost £2bn of funds under management, after a figure which has nearly doubled in the last 12 months. Pension money accounts for nearly 30 per cent of the total. GT manages parts of the pension funds of the BBC and several major U.S. companies. Only 42 per cent of the total money it manages originates in the UK, with another 18 per cent from the U.S. and 9 per cent from the Middle East. Most of the overseas money is invested in its wide range of mainly open-ended offshore funds, the value of whose assets is about £600m.

But the portfolios whose performance is most open to public scrutiny are those of its eight authorised unit trusts and its six closed-end investment trusts quoted on the UK stock market.

Four of the five long-standing unit trusts have achieved compound annual growth rates over the past six years of between 22.5 and 27 per cent (with net income reinvested), according to Planned Savings statistics. Only its lower risk income fund scored less, with 14.7 per cent growth. Most spectacular have been the results achieved by its European Fund, whose assets have risen by 120 per cent in value over the past year to make it the top fund in its category.

Its three major investment trusts—Berry, GT Japan, and Northern Securities—also consistently appear in the top 20 trusts for five-year performance produced by the Association of Investment Trusts.

The performance record puts GT in the top three of the larger UK unit and investment trust management groups.

Much of the group's success can be attributed to its wide international exposure and strong representation of researchers and portfolio managers in bases close to the world's main stockmarkets—or, in the case of California, major growth industries.

### Low proportion

In March of this year only 14.5 per cent of its funds were invested in UK companies, a remarkably low proportion in comparison to the average UK investment house. About 37 per cent of funds were invested in Japan and 27.5 per cent in North America.

GT is often cited as a classic expounder of the "from the top down" approach to investment management, but in fact its method of working is more complex.

Its starting point is certainly an austerely monetarist analysis of world economic trends. Its managers lose no opportunity to preach the theoretical virtues of such a starting point using varying degrees of sophistication, according to the audience.

This analysis produces a conclusion as to the optimum weightings between different world markets and different industrial sectors. It also determines the proportion of fixed-interest stock and liquidity in the portfolios, although traditionally GT has been overwhelmingly invested in equities. The analysis and the resultant weightings are continually updated as shifts and disruptions occur in the economies of the world.

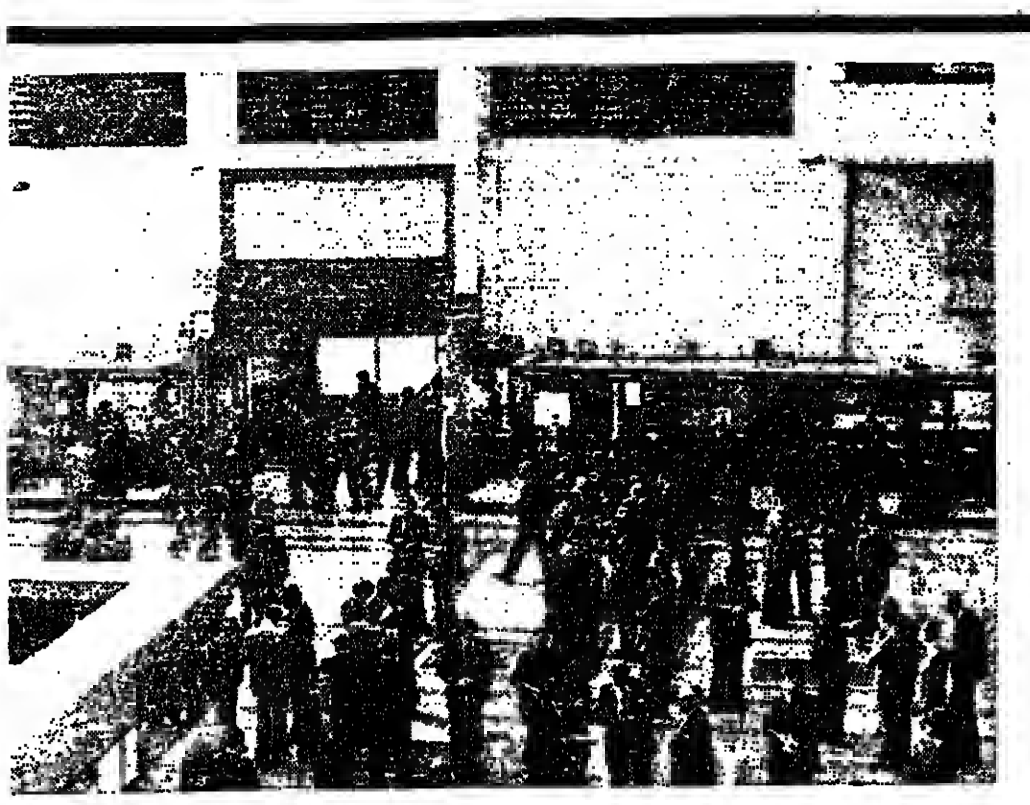
Once the most promising markets and sectors have been identified, the next stage is to pick the companies in those stocks which have the greatest growth potential — and which are not over-valued. The yardstick used to assess whether a stock offers value is the relationship between the company's forecast growth rate in earnings and its current price earnings ratio.

But GT also recognises that some of the best companies are in low-growth countries, of which the UK and U.S. are classic examples. So its "top-down" philosophy is tempered by use of the "bottom-up" approach, more common among UK fund managers to pick out those companies likely to grow much faster than the sectors or economies they are in.

GT itself is still in a stage of rapid growth, more rapid than the booming sector of which it forms part.

Inevitably its success has aroused speculation that it will soon be following in the footsteps of other high-flying investment management groups by floating its shares on the stock market. If it did so at present, its market capitalisation would be at least £25m, probably much more. But its managers say that there are no plans to go public in the immediate future.

**Clive Wolman**



The floor of the Amsterdam Stock Exchange

Dutch shares, especially the big 'internationals', are the target of substantial foreign buying

# U.S. and Britain make the running

WHILE THE impact of foreign investors on the Amsterdam Stock Exchange has undoubtedly been considerable, it would have been greater still had several of the major Dutch shares not been traded so extensively on Wall Street. Philips, the electrical giant, for example, is now over 20 per cent owned by U.S. interests operating through the New York Stock Exchange. KLM, the Dutch airline, made a recent equity issue with 70 per cent availability in America and the other Dutch "internationals," such as Royal Dutch/Shell, Unilever and Akzo, are traditionally listed not only in the U.S. but in most major financial centres around the world. The effect is the same. The form is different.

To an extent therefore greater than would normally be expected of a country the size of the Netherlands the volume of foreign dealing on the local bourse does not fully reflect the degree of interest in local securities.

Even so, foreign investors have certainly been making themselves felt in Amsterdam itself this year. De Nederlandsche Bank, Holland's central bank, reported last month that the importance of foreign holdings in Dutch shares had risen in the second quarter, with special interest displayed by buyers from the U.S. and Britain.

In the first quarter of this year U.S. investors bought Dutch shares to a value of Fl 177m. In the second the rate shot up by more than 450 per cent to a value of Fl 825m, making a total of Fl 1bn. British investment at the end of the first quarter was already Fl 301m and increased to Fl 686m by the end of June last. By contrast, West German investors sold quite heavily over the six months to a total of Fl 315m, while their Belgian and Luxembourg counterparts ended the first half with a portfolio up by a net Fl 85m, having sold some Fl 34m of equities between January and the end of March.

## Amsterdam
WALTER ELLIS

The European Community countries as a whole continued to demonstrate their faith in Dutch industry and commerce, injecting a total of Fl 527m into the share market over the six-month period. Japan sold shares to a value of Fl 13m in the first quarter and then paid out Fl 8m in the second, again demonstrating that Japanese investors are not seriously interested in Dutch shares.

Overall, from January 1 to June 30, Fl 1.55bn was added to the market from abroad, all but 21 per cent of it in the second quarter. In 1982 the balance was Fl 1.15bn. Inward investment was weakest between autumn of last year and last spring.

Dutch investors wishing to put their money into foreign shares — as distinct from property — were by contrast distinctly quiet during the first six months of this year, laying out a mere Fl 293m. But since 1979 and 1980, when a total outlay of just over Fl 2bn was made in overseas equities, the trend has been downhill. The new American shares in Amsterdam system (ASAS), which allows U.S. stocks to be traded in Amsterdam, should help redress this balance and has got off to an encouraging start. But it is early days and all that can be said for certain is that when Wall Street is on a high so is ASAS.

The main reason for this year's upsurge of foreign interest appear to be the continuing strength of the guilder and the fact that the Dutch market now looks cheap and set to improve. The guilder has held its value well against major currencies in recent years, aided by its special relationship with the Deutschemark. Shares denominated in the Dutch currency thus have an additional "kicker." Meanwhile the weak Dutch industrial sector looks set to improve. The Government, a Centre-Right coalition of Christian Democrats and Liberals, has adopted a tough stance on public sector wages and public borrowing and intends cutting the rate of company tax from 48 to 44 per cent next year and to 40 per cent in 1985.

Much of the money, including American money, that is being invested is being handled by fund managers based in London — although some also comes via Switzerland. The main beneficiaries are the big "internationals" and other well-known quality stocks like Heineken Breweries, Elseviers, the publishers, and Nationale-Nederlanden, the big insurance group. They all have much to thank the U.S. markets for, and especially those big pension funds encouraged by ERISA (the American Retirement Investment Securities Act) to splash more of their funds abroad.

# Global market

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for the Americans to move overseas is precisely after an above-average period of domestic performance. Right now, London-based international fund managers are hoping to pick up business from AT & T as it implements a policy of international diversification of its pension plan portfolios, although there are fears that the break-up of Ma Bell into regional constituents will delay the process.

The greater the volume of U.S. investment funds that move overseas, the greater the chance that the world's markets will move in parallel. But there are other reasons than diversification for adopting an international strategy.

Increasingly, fund managers think in terms of worldwide industries — or they may simply follow a policy of investing in high quality companies wherever they may be.

Meanwhile there are other important sources of international funds. The year's single most spectacular event on the international portfolio management scene has been the switch in advisers to Brunei.

During the summer the oil-rich sultanate in the East Indies sacked the Crown Agents and switched the control of £4bn of its assets to Morgan Guaranty and Citibank and to Nomura and Daiwa of Japan. However, other tranches of Brunei's funds continue to be handled by Morgan Grenfell, James Capel and Wardleys of Hong Kong.

Elsewhere the Japanese are regarded as a potential source of international portfolio management business and they are already significant in some sectors. Although investment flows are very much subject to political interference, the embarrassingly large visible trade surpluses being earned by Japan increases the probability that capital outflows will continue to be encouraged.

As for the Continental Europeans, their attention too has been captured by the strength of overseas stock markets. The early months of the year saw a big revival in purchases of U.S. equities by the Germans and the Swiss, to the extent of a net $1bn between them in the first quarter.

What has still to be proved is whether international investors will lose their sense of adventure when market conditions around the world become less favourable, as they must on the basis of past cyclical patterns.

Previous surges of enthusiasm for smaller markets like Mexico and the Philippines have ended in tears. Those in control of large international portfolios are acutely aware that it can be easy to get into a market but very difficult to get out again, except at a severe price penalty.

But the more exotic markets aside, the growth of international investment appears more enduring this time. The volumes are bigger and the enthusiasm of investors is being matched by the desire of many companies in Europe and Japan and elsewhere to tap international sources of capital. Relationships are being formed which will not easily be dissolved.

Meantime the technology is being put into place which could make a truly global market a reality. It may well be resisted by national authorities, for whom the implications are not always positive. In the UK, for instance, the Government is finding its ability to impose stamp duty on share transactions is being threatened by the growth of parallel markets in key British shares in New York.

There are signs of a pause in the hitherto strong surge in U.S. and other foreign buying

# New issue volume may slacken off

THE Stockholm Stock Exchange is one of the most rapidly growing markets in the world, thanks in large part to the flow of foreign investment, primarily American and British. There are signs, however, that this interest is beginning to wane.

Share values in the past three years have grown fourfold, led by a surge of new domestic investment and later boosted by buying from abroad. Since the start of 1983, the Veckans Afforer index is up 60 per cent. Forest industry stocks are up 77 per cent and chemicals climbed 87 per cent on the same reckoning.

In the past year significant shareholdings in Swedish companies have been acquired from abroad. After Ericsson's issue of 4m shares in May, for example, foreign holdings are nearing the 40 per cent maximum allowed under Swedish law. For Pharmacia the figure is 37 per cent after its latest issue.

Foreign buyers have invested a total of SKr 5.8bn in risk capital this year, acting both through their own markets and on the Stockholm exchange.

Total new issues of SKr 10.7bn this year are twice the total during the 1970s. Of this figure SKr 3.8bn has been raised abroad (more than the total level of new domestic issues in Sweden last year).

Net foreign purchases of existing shares for the first nine months were SKr 1.9bn—the gross figure is SKr 6.5bn. Viewed on a quarterly basis, however, there has been a sharp decline. Net purchases for the third quarter were SKr 209m, compared with an average for the previous three quarters of SKr 895m.

As the largest single group of net buyers foreign investors have become a powerful force on the market. The reduction of net buying, if continued, will significantly slow the sustainable pace of new issues.

At the same time new government moves may soon start taking a toll among the second largest group of net buyers—the funds of small investors who were drawn into the market by the previous non-Socialist government's tax rebate for share savings—who played a major role in initiating the spectacular rise in stock prices.

## Stockholm
MICHAEL BROWN

This plan is estimated to have drawn some SKr 10bn into the market since 1980, against its total present value of some SKr 200bn.

A new replacement scheme introduced by the Social Democrats makes share investments less advantageous and savings are expected gradually to shift away from the exchange when the scheme comes into force early next year.

On the other hand the wage earner funds' scheme, which generated uncertainty abroad, will probably draw some SKr 2bn a year of profit-financed union shareholdings into the market up to 1990.

Corporate profitability—forecast to surge to its highest levels since 1974 this year—remains a fundamental strong point. Industrial sales have climbed by an average of 17 per cent during the first nine months and profits, after net financial costs, have more than doubled.

A surprise increase in capital gains tax announced by the Government last month, together wit a new 1 per cent turnover tax (split betwen broker and client and starting next year) does not seem to have had any adverse effects so far.

Trading volume during the first half of 1983—more than 100 times the level of the period 1975-80—created problems during the year. The exchange was forced to close its doors for a total of 13 working days because of logjams, now largely cleared, in a separate central securities registry.

Stock market procedures have come under intense public scrutiny since the historic expulsion in September of two companies for alleged reporting irregularities.

Officials admit that the stock exchange's trading rules have failed to keep pace with its evolution into a world-class market. Working groups have been organised to redefine the responsibilities of listed companies and to write a new handbook of ethical guidelines.

The exchange has so far been largely self-regulating but Mr Kjell-Olof Feldt, the Finance Minister, announced last month Government plans to step in with legislation to tighten reporting requirements and make "insider trading" a criminal offence.